

104
PRIOR DOMESTIC COMMERCIAL USE ACT OF
1995

4. J 89/1:104/39

Prior Domestic Commercial Use Act o...

HEARING

BEFORE THE

SUBCOMMITTEE ON
COURTS AND INTELLECTUAL PROPERTY
OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

H.R. 2235

PRIOR DOMESTIC COMMERCIAL USE ACT OF 1995

OCTOBER 26, 1995

Serial No. 39



Printed for the use of the Committee on the Judiciary

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PRIOR DOMESTIC COMMERCIAL USE ACT OF 1995

THURSDAY, OCTOBER 26, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS AND
INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:02 a.m., room 2141, Rayburn House Office Building, Hon. Carlos J. Moorhead (chairman of the subcommittee) presiding.

Present: Representatives Carlos J. Moorhead and George W. Gekas.

Also present: Thomas E. Mooney, chief counsel; Mitch Glazier, assistant counsel; Veronica Eligan, secretary; Betty Wheeler, minority counsel.

OPENING STATEMENT OF CHAIRMAN MOORHEAD

Mr. MOORHEAD. The Subcommittee on Courts and Intellectual Property will come to order.

Today the subcommittee is conducting a hearing on H.R. 2235, the Prior Domestic Commercial Use Act of 1995. H.R. 2235 provides a defense against patent infringement. The defense typically arises when an original inventor, who did not publicly disclose his invention by patenting it and who has used his invention in a commercial endeavor, is being sued by a party who later patented the very same invention. An inventor may develop a product for personal gain or for the gain of his employer without ever considering obtaining a patent, or may choose for personal or strategic reasons not to disclose his invention, instead deciding to protect his invention by means of trade secret laws.

One of the more famous trade secrets is the formula for Coca-Cola, which has never been patented. While there is no Federal trade secret law, there is a State common law protection for trade secrets and many States have enacted statutes to protect trade secrets. Under current law, trade secret protection and patent protection conflict because prior public disclosure of an invention defeats a patent while an undisclosed invention which relies on trade secret protection does not.

H.R. 2235 would resolve this conflict by granting to a person that has used commercially an invention more than 1 year prior to an application for a patent on that very same invention, in effect, a nontransferable compulsory license which is limited to practicing the invention claimed by the prior user in their earlier activity. The

licensee does not extend to new patents on the affected product. H.R. 2235 thus allows an inventor to choose whether or not he wishes to disclose the formula for his invention to the public by patenting it or whether to prevent disclosure by making it a trade secret.

[The bill, H.R. 2235, follows:]

104TH CONGRESS
1ST SESSION

H. R. 2235

To amend title 35, United States Code, to afford a personal defense to infringement based on the commercialization of an invention in the United States prior to the filing date of a patent claiming the same invention.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 4, 1995

Mr. MOORHEAD (for himself and Mrs. SCHROEDER) introduced the following bill; which was referred to the Committee on the Judiciary

A BILL

To amend title 35, United States Code, to afford a personal defense to infringement based on the commercialization of an invention in the United States prior to the filing date of a patent claiming the same invention.

1 *Be it enacted by the Senate and House of Representa-*

2 tives of the United States of America in Congress assembled,

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "Prior Domestic Com-

5 mercial Use Act of 1995".

1 SEC. 2. DEFENSE TO PATENT INFRINGEMENT BASED ON
2 PRIOR DOMESTIC COMMERCIAL USE.

3 (a) DEFENSE.—Chapter 28 of title 35, United States
4 Code, is amended by adding at the end the following new
5 section:

8 “(a) DEFINITIONS.—For purposes of this section—
9 “(1) the terms ‘commercially used’, ‘commer-
0 cially use’, and ‘commercial use’ mean the use in the
1 United States in commerce or the use in the design,
2 testing, or production in the United States of a
3 product or service which is used in commerce,
4 whether or not the subject matter at issue is acces-
5 sible to or otherwise known to the public;

16 “(2) the terms ‘used in commerce’, and ‘use in
17 commerce’ mean that there has been an actual sale
18 or other commercial transfer of the subject matter
19 at issue or that there has been an actual sale or
20 other commercial transfer of a product or service re-
21 sulting from the use of the subject matter at issue;
22 and

23 “(3) the ‘effective filing date’ of a patent is the
24 earlier of the actual filing date of the application for
25 the patent or the filing date of any earlier United
26 States, foreign, or international application to which

1 the subject matter at issue is entitled under section
2 119, 120, or 365 of this title.

3 **“(b) DEFENSE TO INFRINGEMENT.—(1)** A person
4 shall not be liable as an infringer under section 271 of
5 this title with respect to any subject matter the manufac-
6 ture, use, sale, or offer for sale of which in the United
7 States or the importation of which into the United States
8 would otherwise infringe one or more claims in the patent
9 being asserted against such person, if such person had,
10 acting in good faith, commercially used the subject matter
11 before the effective filing date of such patent.

12 **“(2)** The sale or other disposition of the subject mat-
13 ter of a patent by a person entitled to assert a defense
14 under this section with respect to that subject matter shall
15 exhaust the patent owner’s rights under the patent to the
16 extent such rights would have been exhausted had such
17 sale or other disposition been made by the patent owner.

18 **“(c) LIMITATIONS AND QUALIFICATIONS OF DE-**
19 **FENSE.—**The defense to infringement under this section
20 is subject to the following:

21 **“(1) NOT A GENERAL LICENSE.—**The defense
22 under this section is not a general license under all
23 claims of the patent at issue, but extends only to the
24 subject matter claimed in the patent that the person
25 asserting the defense had commercially used before

1 the effective filing date of the patent, except that the
2 defense shall also extend to variations in the quan-
3 tity or volume of use of the claimed subject matter,
4 and to improvements in the claimed subject matter
5 that do not infringe additional specifically claimed
6 subject matter of the patent.

7 “(2) EFFECTIVE AND SERIOUS PREPARA-
8 TION.—With respect to subject matter that cannot
9 be commercialized without a significant investment
10 of time, money, and effort, a person shall be deemed
11 to have commercially used the subject matter if—

12 “(A) before the effective filing date of the
13 patent, the person reduced the subject matter
14 to practice in the United States, completed a
15 significant portion of the total investment nec-
16 essary to commercially use the subject matter,
17 and made a commercial transaction in the
18 United States in connection with the prepara-
19 tion to use the subject matter, and

20 “(B) after the effective filing date of the
21 patent, diligently completed the remainder of
22 the activities and investments necessary to com-
23 mercially use the subject matter, and promptly
24 began commercial use of the subject matter.

1 “(3) BURDEN OF PROOF.—A person asserting
2 the defense under this section shall have the burden
3 of establishing the defense.

4 “(4) ABANDONMENT OF USE.—A person who
5 has abandoned commercial use of subject matter
6 may not rely on activities performed before the date
7 of such abandonment in establishing a defense under
8 subsection (b) with respect to actions taken after the
9 date of such abandonment.

10 “(5) PERSONAL DEFENSE.—The defense under
11 this section may only be asserted by the person who
12 performed the acts necessary to establish the defense
13 and, except for any transfer to the patent owner, the
14 right to assert the defense shall not be licensed or
15 assigned or transferred to another person except in
16 connection with the good faith assignment or trans-
17 fer of the entire enterprise or line of business to
18 which the defense relates.

19 “(6) ONE YEAR LIMITATION.—A person may
20 not assert a defense under this section unless the
21 subject matter on which the defense is based had
22 been commercially used or reduced to practice more
23 than one year prior to the effective filing date of the
24 patent by the person asserting the defense or some-
25 one in privity with that person.

1 “(7) DERIVATION.—A person may not assert
2 the defense under this section if the subject matter
3 on which the defense is based was derived from the
4 patentee or persons in privity with the patentee.

5 “(d) UNSUCCESSFUL ASSERTION OF DEFENSE.—If
6 the defense under this section is pleaded by a person who
7 is found to infringe the patent and who subsequently fails
8 to demonstrate a reasonable basis for asserting the de-
9 fense, the court shall find the case exceptional for the pur-
10 pose of awarding attorney's fees under section 285 of this
11 title.

12 “(e) INVALIDITY.—A patent shall not be deemed to
13 be invalid under section 102 or 103 of this title solely be-
14 cause a defense is raised or established under this sec-
15 tion.”.

16 (b) CONFORMING AMENDMENT.—The table of sec-
17 tions at the beginning of chapter 28 of title 35, United
18 States Code, is amended by adding at the end the follow-
19 ing new item:

“Sec. 273. Prior domestic commercial use; defense to infringement.”.

20 **SEC. 3. EFFECTIVE DATE AND APPLICABILITY.**

21 This Act and the amendments made by this Act shall
22 take effect on the date of the enactment of this Act, but
23 shall not apply to any action for infringement that is pend-
24 ing on such date of enactment or with respect to any sub-
25 ject matter for which an adjudication of infringement, in-

1 cluding a consent judgment, has been made before such
2 date of enactment.

○

Mrs. Schroeder, the subcommittee ranking Democrat, asked me to extend her apologies to all the witnesses today, that she is unable to attend the hearing. Her attendance is required in a conflicting hearing held by another Judiciary subcommittee. She is an original cosponsor of H.R. 2235 and looks forward to reviewing the transcript of today's hearing so that she can work to make the bill as strong as possible. Without objection, her written statement will be placed in the record.

[The prepared statement of Mrs. Schroeder follows:]

PREPARED STATEMENT OF HON. PATRICIA SCHROEDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. Chairman, I am pleased to join you as an original co-sponsor of H.R. 2235, the Prior Domestic Commercial Use Act of 1995.

I apologize to our witnesses for my absence today; regrettably, the Judiciary Committee has conflicting hearings and markups scheduled today, and my attendance is required elsewhere. I do want to join the Chairman, however, in welcoming our witnesses today. Dieter Hoinkes of the Patent and Trademark Office has been of tremendous assistance to this subcommittee on many occasions, and we appreciate having the benefit of his counsel on this bill. I also want to thank Mr. William Budinger for this leadership on behalf of strong intellectual property protection at the White House Conference on Small Business.

In my view, H.R. 2235 strikes the proper balance between patent and trade secrecy principles. There are times when the cost of obtaining and policing patents on a worldwide basis is prohibitive; there are circumstances in which trade secrecy, in the business judgment of a manufacturer, is the better route for protection of a particular invention.

The limited defense to patent infringement liability provided by this bill for certain prior commercial users of the patented invention strikes a careful balance between the equities on both sides of the equation: the prior use and the patent owner. I welcome any comments our witnesses have with respect to amendments to the bill that would ensure that this limited defense strikes the appropriate balance between those equities.

Mr. MOORHEAD. Our first witness is from the Patent and Trademark Office. Mr. H. Dieter Hoinkes is a Senior Counsel in the Office of Legislative and International Affairs. He holds a degree in mechanical engineering from the University of Rochester and earned his law degree from the George Washington University School of Law. In recognition of his contributions, Mr. Hoinkes is the only government official ever to have been elected a member of honor of the International Association for the Protection of Intellectual Property, a worldwide association of over 6,500 intellectual property professionals. Mr. Hoinkes has provided us with advice and good counsel on pending legislation for many years. We're grateful to your input, we value your views very highly.

I would also note that he is probably the only witness that we will have today who knows the route between—I'll have to get it right yet—Regensburg and Liechtenstein.

We have your written statement which I ask unanimous consent to be made a part of the hearing. I ask that you summarize your statements in 10 minutes or less. You are welcome this morning.

That's a little joke; we were in Germany together and we had a discussion as to whether it would be better to go to Regensburg or Liechtenstein.

STATEMENT OF H. DIETER HOINKES, SENIOR COUNSEL, OFFICE OF LEGISLATIVE AND INTERNATIONAL AFFAIRS, U.S. PATENT AND TRADEMARK OFFICE, U.S. DEPARTMENT OF COMMERCE

Mr. HOINKES. Thank you, Mr. Chairman. I have the sinking feeling that I will never live this down, but I can assure you that Liechtenstein will still be there the next time and we will do our best to chart that route then.

Mr. Chairman, I'm pleased to testify on H.R. 2235, a bill that would establish a prior user right. This right would provide inventors who did not obtain patent protection with a limited degree of protection against liability for patent infringement, if the invention in question is subsequently patented by another. The administration supports this bill.

H.R. 2235 strikes a careful balance between the rights of an earlier user who did not patent his invention and another inventor who later turned to the patent system for protection. It achieves this balance through important restrictions on the availability and the scope of the prior use defense. These limitations will ensure that the prior use defense does not undermine the legitimate rights of patent owners, yet will provide much needed certainty to businesses faced with the often difficult decision of how best to protect innovation.

Let me begin by noting that the often used term "prior user right" is somewhat of a misnomer because the concept proposed in H.R. 2235 is actually a limited form of a defense. It is a limited defense to liability of a party who is found to infringe a patent. It is a defense, that, under this legislation, would be available only to certain entities and only under certain conditions. Importantly, the defense would be available only to those parties who either made actual commercial use of a particular invention or had made effective and serious preparation for such use more than 1 year before the patent owner originally filed for patent protection. A prior use defense could not be based, for example, on activities amounting only to preliminary research or investigation.

The bill also clarifies the status of those who purchase products or services from a legitimate prior user. Such purchasers would stand on an equal footing with a party who purchased a product from a patent owner. The bill also reflects commercial realities by effectively but fairly limiting the permissible scope of use of the patented invention by the prior user. Freedom from liability provided to a prior user only extends to those aspects of the patented invention that the prior user has commercially used more than 1 year before the earliest effective filing date of the application leading to the patent. The defense would also exempt from liability certain variations in the use of the patented invention so long as they do not infringe other claims of the patent. H.R. 2235 includes a number of additional safeguards to prevent the prior use defense from being asserted in inappropriate circumstances.

For example, a party cannot assert a prior use defense based on actions previously performed but abandoned to justify later commercial use of the invention. The defense is personal to the prior user and cannot be licensed or shared with others. To establish a prior use defense the prior user must have developed the invention

independently of the patentee. And, if the defense is asserted frivolously, the court must award attorney's fees to the patent owner.

We believe that these restrictions on the availability and scope of the prior use defense strike the proper balance between the rights of a patent owner and the rights of an earlier innovator who elected trade secrecy to protect an invention. By the same token, we do not believe that the availability of a prior use defense will encourage inventors to choose trade secrecy to the detriment of the patent system. That choice will continue to be dictated primarily by the characteristics, effectiveness and suitability of each form of protection vis-a-vis the invention in question.

The prior use defense, therefore, will permit companies to choose with confidence the most effective means of protecting their important technology. Of course, Mr. Chairman, some have argued that creating a new defense to patent infringement based on prior use would diminish the value of patent rights, particularly for patent owners who primarily license patent rather than manufacture products covered by patent. And others have suggested that the prior use defense will excessively strengthen trade secret rights to the point of discouraging use of the patent and early public disclosure of innovations. We are aware of these concerns, but believe that the current bill creates an appropriately limited prior use defense that will not materially affect the value of patents, including their value in licensing or for that matter, noticeably diminish use of the patent system for protecting invention.

Although there are several technical considerations that suggest slight amendments to the bill to express more clearly the underlying intent of this legislation, we believe the bill succeeds in crafting a prior user right in an appropriately balanced manner and, accordingly, the administration supports this bill and I would be pleased to try to answer any questions you may have. Thank you.

[The prepared statement of Mr. Hoinkes follows:]

PREPARED STATEMENT OF H. DIETER HOINKES, SENIOR COUNSEL, OFFICE OF LEGISLATIVE AND INTERNATIONAL AFFAIRS, U.S. PATENT AND TRADEMARK OFFICE, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Subcommittee, I am pleased to testify on H.R. 2235, a bill that would establish a prior user right. This right would provide inventors who did not obtain patent protection with a limited degree of protection against liability for patent infringement, if the invention in question is subsequently patented by another. The Administration supports this bill.

H.R. 2235 strikes a careful balance between the rights of an earlier user who did not patent his invention and another inventor who later turned to the patent system for protection. It achieves this balance through important restrictions on the availability and scope of the prior use defense. These limitations will ensure that the prior use defense does not undermine the legitimate rights of patent owners, yet will provide much needed certainty to businesses faced with the often difficult decision of how best to protect innovation.

Let me begin by noting that the term "prior user right" is somewhat of a misnomer. The concept proposed in H.R. 2235 is actually a limited defense to liability of a party who is found to infringe a patent. It is a defense that, under this legislation, would be available only to certain entities and under certain conditions.

Importantly, the defense would be available only to those parties that had either made actual commercial use of a particular invention, or had made "effective and serious" preparation for such use, more than one year before the patent owner originally filed for patent protection. A prior use defense could not be based, for example, on activities amounting only to preliminary research or investigation. The legislation provides workable definitions for determining if the commercial use standard

has been met and appropriately places the burden for establishing the defense on the party asserting it.

The bill also clarifies the status of those who purchase products or services from a legitimate prior user. Under proposed section 273(b)(2), such purchasers stand on an equal footing with a party who purchased a product from the patent owner.

The bill reflects commercial realities by effectively, but fairly, limiting the permissible scope of use of the patented invention by the prior user. Under proposed section 273(c)(1), freedom from liability provided to a prior user only extends to those aspects of the patented invention that the prior user used commercially more than one year before the earliest effective filing date of the application leading to the patent. However, the defense would also exempt from liability certain variations in the use of the patented invention. For example, a person who had successfully asserted a prior use defense would be allowed to increase the volume of use of the patented invention or alter the particular nature of that use. Conversely, any such variations cannot infringe additional claims of the patent and still remain protected under the defense.

H.R. 2235 includes a number of further safeguards to prevent the prior use defense from being asserted in inappropriate circumstances.

Under proposed section 273(c)(4), a party could not assert a prior use defense based on actions previously performed but abandoned, to justify later commercial use of the invention.

Under section 273(c)(5), the defense may only be asserted by the actual prior user, or a party that acquires the actual prior user's entire interest in the business or enterprise under which the prior use defense arose. In other words, the defense is personal to the prior user and cannot be licensed or shared with others.

Proposed section 273(c)(7) would prevent a party from asserting a prior use defense based on information derived from the patent owner or parties in privity with the patent owner. Thus, to establish a prior use defense, the prior user must have developed the invention independently of the patentee.

Proposed section 273(d) provides that the court shall award the patent owner attorneys fees if a party that was found to have infringed the patent unsuccessfully asserts a prior use defense without a reasonable basis. This provision will help protect the interests of patent owners with limited financial resources, and will deter frivolous assertions of the defense.

We believe these restrictions on the availability and scope of the prior use defense strike the proper balance between the rights of a patent owner and the rights of an earlier innovator who elected trade secrecy to protect an invention. Furthermore, this legislation would mitigate the pressure that many businesses face today to pursue patent protection for relatively minor innovations for purely defensive purposes. As such, the Administration believes this legislation will help preserve the important balance that should exist between patent and trade secret protection in the United States.

By the same token, we do not believe that the availability of a prior use defense will encourage inventors to protect innovation through trade secrecy to the detriment of the patent system. That choice will continue to be dictated primarily by the characteristics, effectiveness and suitability of each form of protection vis-a-vis the invention in question. The prior use defense, therefore, will permit companies to choose with confidence the most effective means for protecting their important technology.

Another benefit of this legislation favors patent owners, because the successful assertion of a prior use defense would not alter the validity or enforceability of patent rights held by the subsequent inventor. Patent owners will be able to enforce rights fully against all others who make, use or sell the patented invention without authority.

In contrast, under current law, the acts giving rise to a prior use defense under this bill could serve as a basis for a party to attempt to invalidate a patent on the basis of prior invention by another under 35 U.S.C. 102(g), provided the first inventor does not conceal, suppress or abandon the invention. However, under existing law, it is not always clear whether maintaining some aspects of an invention in secrecy will amount to concealment or suppression of an invention. This legislation will remove some of this uncertainty by providing that patent invalidity cannot be based solely on the establishment of a prior use defense.

Prior user rights will also redress a current imbalance of rights between U.S. and foreign businesses. Prior user rights are available in most foreign, industrialized nations. This means that in those countries, U.S. businesses that hold patents cannot enforce their exclusive rights against companies that can demonstrate prior use of the patented invention. The converse, however, is not true. A domestic prior user

of an invention kept as a trade secret has no effective defense based on prior use when facing a threat by a foreign company that obtains a U.S. patent covering that invention. Recall, that presently over 42% of all patents issued in the United States are granted to foreign entities. Providing a prior user right will harmonize one aspect of the U.S. patent system with the patent systems of a majority of our trading partners and will thus address this disparate treatment of U.S. businesses.

Prior user rights may also address certain concerns that have been expressed in the software industry. In 1994, we held hearings and solicited public input on the use of the patent system to protect software-related inventions. We heard from a wide range of interests, including small and large software companies, independent software developers, patent attorneys and trade associations. Several companies, particularly small software start-up firms from Silicon Valley, expressed concerns over potential liability for patent infringement based on their use of "old" or "well known" software techniques. These individuals believe that patents covering such techniques have been and may be granted, in part because these techniques were not previously documented in patents or printed publications.

The proposed prior use defense could address one aspect of the problem these companies have described. It would enable a company that had made the requisite degree of commercial use of the "old" technique under the appropriate circumstances to avoid liability for patent infringement. It would provide this relief without requiring the company to prove that the patent being asserted against it is invalid. And while we cannot predict how frequently this scenario will arise, we believe the legislation would address the concerns the companies have raised.

Of course, some have argued that creating a new defense to patent infringement based on prior use will diminish the value of patent rights, particularly for patent owners who primarily license patents, rather than manufacture products covered by patents. Specifically, some have argued that prior user rights will cast a cloud over patent rights, creating uncertainty in terms of full enforceability of patent rights, and lessening the value of patents to potential licensees who may be unable to proceed against some commercial competitors.

Others have suggested that the prior user defense will excessively strengthen trade secret rights to the point of discouraging use of the patent system, and with that, early public disclosure of innovations. We are cognizant of these concerns, but believe that the current bill creates an appropriately limited prior use defense that will not materially affect the value of patents, including their value in licensing, or noticeably diminish use of the patent system for protecting innovation. As the Advisory Commission on Patent Law Reform noted in 1992, "[t]he basic difficulty in providing a prior user right is crafting the right so that it does not undercut the value of the exclusive rights obtained through a patent grant, or the desirable goal of early disclosure of inventions . . ." We believe the current bill succeeds in crafting the prior user right in an appropriately balanced manner.

There are several technical considerations, however, that suggest slight amendments to the bill to express more clearly what we believe is the underlying intent of this legislation.

For example, proposed section 273(c)(6) limits the availability of the prior use defense to relevant acts that occur at least one year before the effective filing date of the patent in question. We support this concept generally, as it is consistent with the concept of our grace period under section 102(b) of title 35. However, the bill does not implement this one-year limitation consistently. For example, effective and serious preparation, as addressed in proposed section 273(c)(2), may qualify as commercial use, but is defined in context of activities that occur before and after the effective filing date of the patent, rather than one year before the effective filing date. Similarly, proposed section 273(c)(1) defines the eligibility of a party using the defense in relation to the effective filing date of the patent, rather than one year prior to that date.

Proposed section 273(c)(6), as presently worded, also could lead to confusion as to eligibility of a party for the defense. This section refers to the date of actual commercial use, or the reduction to practice, of the subject matter that will serve as the qualifying event for the prior use defense. In the earlier sections of the bill, only actual commercial use or effective and serious preparation for such commercial use are identified as events that can give rise to the defense. Reduction to practice is only one element of the latter basis for asserting the defense. Referring in section 273(c)(6) to only one condition that need be shown to establish effective and serious preparation leaves open the question of when the other elements must be satisfied.

Finally, proposed section 273(c)(6) appears to be inconsistent with the limitations of proposed section 273(c)(5) governing the ability of parties, other than the actual prior user, to gain the benefits of the defense. In proposed section 273(c)(5), only the party performing the necessary acts, or a party that acquires the entire enter-

prise or line of business to which the prior use defense relates, can assert the defense. In such a circumstance, the original prior user would no longer be able to assert the defense. Parties in privity with the prior user cannot influence the creation or assertion of the prior use defense. However, in proposed section 273(c)(6), a party in privity with the prior user is identified as having a potential role in establishing the prior use defense. This inconsistency creates some confusion as to who may establish the prior use defense and what the timing is of the acts necessary to create this defense.

We believe all of these problems could be eliminated through a relatively simple technical amendment. Specifically, we suggest that proposed section 273(c)(6) be deleted, and that proposed sections 273(b)(1), 273(c)(1), and 273(c)(2) be amended to specify a date that is at least one year before the effective filing date of the patent. We would be pleased to assist the Subcommittee should it desire to implement these technical amendments.

Mr. MOORHEAD. We would welcome any suggestions you have on any of these technical changes that you've suggested. This bill only applies to those who have commercially used a product or a process of the United States. Will this give greater protection to domestic industry than the current case?

Mr. HOINKES. Well, Mr. Chairman, to the extent that domestic industry finds itself in the position of a prior user, this bill would protect against the liability for infringement of a patent that covers the subject matter of the prior use.

Mr. MOORHEAD. In your opinion, does the fact that the United States has not yet passed prior user rights legislation while most of the rest of the industrialized countries have lead to the relocation of American industries to other countries?

Mr. HOINKES. I don't think, Mr. Chairman, that the industries, that any industry's decision to relocate to another country is driven by the availability of prior user rights in those other countries. I would imagine that tax advantages and labor costs may be a greater incentive to relocation than prior user right.

Mr. MOORHEAD. Would the bill affect the licensing activity of small businesses and universities?

Mr. HOINKES. No, Mr. Chairman, it is our opinion that it would not. This bill is balanced actually in favor of patentees and it has so many safeguards that a prior use defense, we think, would actually be used only in the rarest circumstances.

Mr. MOORHEAD. Instead of adopting prior user rights why don't we simply change the patent laws to permit prior secret use to defeat a patent just like a prior disclosed use? If the prior user really did invent the process or product, wouldn't this be in accordance with our goal of rewarding the first inventor with exclusive rights?

Mr. HOINKES. Well, Mr. Chairman, first of all, the prior user right is not an exclusive right. As a matter of fact, it is not a right at all. It is strictly a defense, and if you say that one should reward the first inventor with exclusive rights, that's all well and good, but if the first inventor; namely, the prior user, did not apply for a patent he cannot be rewarded with an exclusive right. So unless a patent application is filed by the prior user, which obviously it wasn't, an exclusive right could not be granted to him.

But with respect to the question of prior secret uses as prior art to defeat the patent, prior art in our present patent system is generally an indication of what is in the public domain, what is free to be used by the public, and that is why public prior art is used to determine whether an invention rises to the level of patentabil-

ity, namely in its aspects of usefulness, novelty, and nonobviousness, to avoid basically taking something back from the public that it at present has a full right to use. And so, by the same token, secret prior use, with some very, very minor exceptions, is not something that should rise to the level of prior art because the invention was used secretly; it was not part of the public domain and, therefore, nothing was taken away from it. As a matter of fact, that is why the second patent issued.

Mr. MOORHEAD. The debate on prior user rights has always been in conjunction with a first-to-file system instead of a first-to-invent system. Do you believe these would be major differences in the operation of the prior user rights between the two systems or cause a problem?

Mr. HOINKES. Mr. Chairman, I don't think there is any difference because whether you have a first-to-file system or first-to-invent system, those systems only determine who is entitled to the exclusive right, who is entitled to get the patent. The prior user is not in that position. His right is merely a defense against liability of patent infringement regardless under what system the patent was obtained, so it shouldn't make any difference.

Mr. MOORHEAD. Do you have any idea about what this change in the law would do to the number of patents that are filed in the United States?

Mr. HOINKES. Well, I suppose that it would be a wash. If we consider whether the number of patents would be affected positively or negatively because of passage of this legislation, we must remember that had the prior user obtained patent protection, then the second individual who independently invented later would not have gotten a patent. We must also remember that the only reason that the prior use defense arose in the first place is that the first inventor didn't file but the second inventor did and obtained a patent. And so whether or not the first one obtained a patent, and therefore the second one couldn't, or the first one did not obtain a patent and therefore the second one could, makes this a total wash, in our opinion.

Mr. MOORHEAD. One of the purposes of the patent system has always been the sharing of knowledge. How does this change affect that goal?

Mr. HOINKES. Well, a nondisclosed invention is of course not protected. The prior user only has a defense against liability for infringing a patent that in fact has divulged the subject matter of the invention of the prior user. So in other words, what we are doing here, we are not rewarding the prior user for having kept the invention secret. Because of the second patent, his invention is now public. There is no more trade secret; his trade secret is down the tubes, frankly. The only thing that this legislation does is to keep the prior user from getting injured additionally by being liable for infringement simply because he chose the trade secrecy route rather than the patent route, and in our system in the United States there is an important balance between trade secrecy and the patent system. And it ought to be maintained. This legislation is a good example of how these two systems can viably work side by side.

Mr. MOORHEAD. My time has expired. The gentleman from Pennsylvania.

Mr. GEKAS. I just want to follow up, if I may, Mr. Chairman, on the last statement made by Mr. Hoinkes, and that is the implication is that this would make a situation worse or at best it just restates what everybody already knows about prior use and then patent it. Is that correct?

Mr. HOINKES. I don't follow you.

Mr. GEKAS. Are you saying that this piece of legislation is unnecessary?

Mr. HOINKES. Heavens, no. Not at all. This legislation is very much necessary because what this legislation in fact does is to keep from liability for infringement a prior user of the invention who used the invention prior to somebody else's having obtained patent protection on that invention.

Mr. GEKAS. I take it, then, we have a litany of prior cases where this proposed statute would have helped. Is that correct?

Mr. HOINKES. Had this bill been enacted previously, it may have helped some people, yes.

Mr. GEKAS. Do we have any egregious cases that we can enter into the record?

Mr. HOINKES. I don't have any that I am aware of, but the possibility always exists that a particular individual avails himself of trade secrecy rather than obtaining patent protection and that independently somebody else invents, obtains patent protection, and then proceeds against the prior user to put him out of business. And we feel that that is unfair.

Mr. GEKAS. You say that right now that lies mostly in theory or in a theoretical or possible hypothetical situation.

Mr. HOINKES. No, what I said, and if I said it in the way you said it I didn't mean to say it that way, but what in fact I said is that I am not aware of specific cases that would be helped or hindered by this bill. There certainly are some out there but I cannot cite you chapter and verse.

Mr. GEKAS. I thank the gentlemen. I have no further questions.

Mr. MOORHEAD. Thank you. We always appreciate your coming and giving us your expert advice.

Mr. HOINKES. Thank you, Mr. Chairman.

Mr. MOORHEAD. Our first witness on the second panel is Prof. Karl Jorda. He is on the faculty of Franklin Pierce Law Center in Concord, NH. Mr. Jorda is also an adjunct professor at the Fletcher School of Law and Diplomacy at Tufts University. He holds bachelor's degrees from the University of Great Falls, MT, and a master's degree in chemistry and a law degree from the University of Notre Dame. He served as a patent and trademark attorney for Miles Laboratories and was chief intellectual property counsel of Ciba-Geigy. He is past president of the Pacific Intellectual Property Association and the New York Intellectual Property Association and a member of the boards of directors of several intellectual property associations. Welcome, Professor Jorda.

Our next witness will be Mr. Richard Schwaab, a partner at Foley & Lardner in Washington and adjunct professor at George Mason University Law School. He holds a bachelor's degree from the University of Wisconsin in chemical engineering and a J.D. and L.L.M. degree from the George Washington University. He has studied at the Max Planck Institute in Munich and has been in pri-

vate practice since 1972. He has written several articles and books on patent law including the area of biotechnology. Welcome, Mr. Schwaab.

We have your written statements and I ask unanimous consent to be made a part of the hearing record and I ask that both of you summarize your statements in 10 minutes or less and that the members of the subcommittee hold their questions until both witnesses have finished their statements. We'll begin with Professor Jorda.

STATEMENT OF KARL F. JORDA, PROFESSOR, FRANKLIN PIERCE LAW CENTER

Mr. JORDA. Thank you very much, Mr. Chairman. I'm also pleased to appear before this subcommittee to testify in favor of H.R. 2235 which I strongly support with the exception of one provision.

We, under our present laws, we have a rather unsettled situation that cries out for resolution, a legislative one, an easy one, an ideal one, even in our first to invent system and that resolution is embodied in H.R. 2235. I'd like to look at this from a trade secret point of view and from a first inventor's point of view in particular. If we had a Federal trade secret law, I believe that a prior user right's provision probably should best be incorporated in the trade secret law rather than in a patent law, but we don't have a Federal trade secret law, so we should have a provision like that which is under discussion in the patent law.

Most opponents take a rather narrow patent perspective on this. The position is, the view is, that prior user rights discourage the use of the patent system contrary to the public policy of providing incentives for disclosure. The patentees are the good guys and the trade secret keepers are the bad guys and a rather well-known Washington patent lawyer has even gone as far as to say that trade secrets are the cesspool of the patent system. That, of course, is utter nonsense. Trade secrets have a much longer history; over 90 percent of technology is covered by trade secrets. Over 90 percent of all agreements, license agreements, embody trade secrets.

And, most importantly, this disparagement of trade secrets flies in the face of a Supreme Court decision, the *Kewanee Oil v. Bicron* decision, in which our Supreme Court held that State trade secret law is not preempted by the Federal patent law, stating that the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict.

And trade secret law and patent law have coexisted in this country. Each has its particular role to play and the operation of one does not take away from the need for the other. And very importantly, the Supreme Court concludes that the extension of trade secret protection even to clearly patentable inventions does not conflict with the patent policy of disclosure.

And in with this respect, Justice Marshall in the concurring opinion made an interesting comment. He said that he was persuaded that Congress, in enacting the patent laws, intended merely to offer inventors a limited monopoly in exchange for disclosure of their invention, rather than to exert pressure on inventors to enter

into this exchange by withdrawing any alternative possibility of legal protection for their inventions.

And in another decision, the Supreme Court made it clear that patents and trade secrets dovetail. So it is particularly in the context of and for the integrity of the trade secret laws that prior user rights are important. After all, it's not possible to patent every and all inventions, all improvements and all developments, and many are marginal and are best being protected under the trade secret law.

Over the years and decades many authors have advocated that such an *in personam* right, as I like to call it, or shop right or intervening right or personal easement, is a first inventor's common law right, exists already in reissue law, would be required by principles of equity, and not according it would be taking property without compensation and would violate due process principles.

For instance, one author said that to give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the inventor and trade secret user. Another one said the constitutional award to one inventor does not mandate a constitutional penalty to another. And, in order to protect both patents and trade secrets from mutual destruction in the face of a conflict, legislative action should be taken.

As I mentioned, as a matter of fact, we do have a sort of *de facto* prior user system in existence. Why? Because there is no case to anybody's knowledge where a first inventor, a bona fide first inventor/trade secret user, was enjoined by a second, or as I call it, *Johnny-come-lately* second inventor who gets a patent. No such case exists as a practical matter. We do have a *de facto* system. There's a good reason for that.

The second inventor, knowing that he is not a bona fide first inventor is reluctant to put his patent on the block because there are many reasons why it could be invalidated, apart from the inventorship question. The patent is supposed to go to the first inventor. Also, because of the prior use, even though it's secret, an invalidation under section 102(g) is conceivable because the limitation in section 102(g) that the invention must not have been suppressed or concealed does not apply where a trade secret has been used commercially and the public has received the benefit. And there's any number of cases on the law books where in fact a prior secret use invalidated under section 102(b) or (a) or under section 102(g), and as a matter of fact, even under section 103 because, even if it is a secret use or an abandoned use, it still indicates the level of skill in the art and can be used for patent defeating purposes.

Though we have a system where it's unfortunate that a second inventor's patent is invalidated, or could be invalidated, even though the first inventor did not resort to the patent system, of course that was his or option or his or her right. There is a case, *Gore v. Garlock*, that says that the prior secret use is not prior art. But that was a case that did not deal with section 102(g) but with section 102(b) and (a), and that was a case where the secret use was practiced by a third party. Now to hold that a secret use by

a third party does not invalidate the patent is one thing. That's perfectly clear. Our court of appeals for the Federal circuit has made that clear. But, that's a different proposition from saying that the secret use of one inventor, the practice of an invention by a first inventor trade secret user, can be enjoined by a second inventor patentee. And, as I pointed out, there is no case on the books that so holds.

Now I mentioned at the very beginning—just two more seconds—at the very beginning that I agree and am fully in support with all of the specific provisions and qualifications except one and that is the 1-year limitation, and I have stated the reasons for my opposition in my statement.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Jorda follows:]

PREPARED STATEMENT OF KARL F. JORDA, PROFESSOR, FRANKLIN PIERCE LAW CENTER

1. My name is Karl F. Jorda. I am David Rines Professor of Intellectual Property Law and Industrial Innovation and Director of the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship at the Franklin Pierce Law Center, Concord, New Hampshire.

In addition, as of September of this year, I serve as an adjunct professor for International Intellectual Property Law at The Fletcher School of Law and Diplomacy, Tufts University, Medford, Massachusetts.

My career as an intellectual property lawyer and professor has spanned some 38 years. During this period, I have been active in industry and professional organizations: I am a past president of the Pacific Intellectual Property Association (PIPA) and the New York Intellectual Property Law Association (NYIPLA). I am also a past or present member of the board of directors, the council or the executive committee of the American Intellectual Property Law Association (AIPLA), the Intellectual Property Law Section of the American Bar Association (ABA), the Association of Corporate Patent Counsel (ACPC), the Intellectual Property Owners, Inc. (IPO), the American Group of the International Association for the Protection of Industrial Property (AIPPI) and the International Trademark Association (INTA).

Today, I am appearing here on my own behalf rather than on behalf of Franklin Pierce Law Center or any other organization and the views I express are not necessarily those of Franklin Pierce Law Center or any other organization.

2. During my career as an intellectual property lawyer and professor, I have developed a particular interest in inventions/patents and know-how/trade secrets and, more particularly, in the interface between these two categories of intellectual property and intellectual property rights. For instance, on numerous occasions since 1977 I have researched, prepared and delivered papers at intellectual property law association meetings on the related topics of "Integration of Patents and Trade Secrets" and "Respective Rights of the First Inventor—Trade Secret User and the Second Inventor—Patentee."

3. In the respective-rights papers I advocated legislative recognition of a first inventor's *in personam* right, i.e., the first inventor/trade secret owner's personal right to continue to practice his/her trade secrets in the face of a second inventor's patent, as embodied in H.R. 2235, and advocated such an *in personam* right:

a) As highly desirable in our first-to-invent system, that is, long before the presently-raging debate about changing to a first-to-file system (which could not come soon enough) and

b) As a way to resolve the conflict between trade secrets and patents in this area, that is, as the "best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes of either having the first inventor/trade secret owner bow and scrape to the second inventor/patentee in a situation where the first inventor made substantial investments or having the second inventor/patentee end up with an invalid patent in a situation where the first inventor kept the invention secret and took no steps to disclose it to the public." (Jorda, "The Rights Of The First Inventor—Trade Secret User As Against Those Of The Second Inventor Patentee," 61 JPOS 574, 606 (1979)) (A copy is attached to provide greater detail regarding my still valid reasoning and my authorities—some of whom, e.g. Professor Jim Gambrel, wrote seminal articles going back to the fifties.)

4. It was my position then and it is my position now that the in person am right or prior user right or "Prior Domestic Commercial Use" right under consideration is needed in the interest of trade secret protection. Trade secrets have been unfairly denigrated. Trade secrets, Irving Kayton, a Washington patent lawyer, is quoted as having said recently, are "the cesspool of the patent system." That's, of course, absolute nonsense.

This disparagement of trade secrets flies in the face of *Kewanee Oil v. Bicron* in which the Supreme Court held that state trade secret law is not preempted by the federal patent law, stating interalia:

Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict.

* * * * *

Trade secret law and patent law have coexisted in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other.

* * * * *

We conclude that the extension of trade secret protection (even) to clearly patentable inventions does not conflict with the patent policy of disclosure. (416 US 470, 181 USPQ 673, 679 and 682 (1974))

This last quotation is the clincher because it followed a three-way categorization of trade secrets (clearly unpatentable, of doubtful patentability and clearly patentable) and a recognition that "the federal interest in disclosure is at its peak" with respect to the third category.

Also very significant is Justice Marshall's concurring opinion in *Kewanee Oil* wherein he stated that he was persuaded that "Congress, in enacting the patent laws, intended merely to offer inventors a limited monopoly in exchange for disclosure of their invention, . . . [rather than] to exert pressure on inventors to enter into this exchange by withdrawing any alternative possibility of legal protection for their inventions." (*Kewanee Oil*, *supra* at 682.)

Furthermore, trade secrets and patents "dovetail," as the Supreme Court recognized in the *Bonita Boats* decision. Trade secrets and patents go hand in hand, indeed, and it is particularly in the context of and for the integrity of trade secrets that prior user rights are very important.

5. It is not possible and practicable to obtain patents on all patentable albeit marginal inventions and it would be much too costly. (In this context it would be a very good idea to establish a utility model or petty patent system or short-term patent system as have existed or are now being introduced in most foreign countries. Such a system would narrow the perceived gulf between patent and trade secrets and permit the patenting of marginal inventions at affordable costs.)

6. Interestingly, we have a prior-user-rights system as a *de facto* matter now under our present intellectual property system. This is very important to note because *de jure* we have a totally unsettled situation. It is not true, though often assumed, that a patentee can enjoin a prior inventor of the same invention who kept it a trade secret. The exclusive right granted by a patent is not *absolute*. There is a veritable litany of statutorily- or decisionally-created "co-uses," "forced sharing of inventions," "estoppels," "implied licenses," "intervening rights," which are akin or tantamount to a prior user right as, for example, shop rights, temporary uses of inventions on vessels or air crafts, intervening rights in reissue cases, co-uses in supplier/customer, manufacturer/distributor, contractor/contractee relationships, public interest situations where injunctive relief is denied, certain uses by government, uses under the Clean Air and Atomic Energy Acts, compulsory licenses as a remedy for antitrust violations, etc.

The reason I said above we have a *de facto* prior-user-rights system is because there's no case on the law books, where a patentee, in fact, was able to enjoin or otherwise stop a first inventor/prior user from practicing the invention. It doesn't happen and it's unlikely to happen because no patentee when he/she is not a *bona fide* first inventor, is going to put his/her patent on the block. In this regard CAFC Judge Pauline Newman stated: "I have not seen anyone who was a prior user who has been stopped upon raising the § 102(g) defense and from that viewpoint it seems that the prior user right is alive and well." (32 IDEA 7, 60 (1991)) And Donald Sell, former Chief Patent Counsel of 3M, believes that an infringement suit against a prior trade secret user is not likely to succeed. (PLI course Handbook Series No 90 "Current Developments in Patent Law" 1978, p. 218.)

7. There is not only a serious question of priority between the two rival inventors, but other invalidity grounds may come into play. The late-comer patentee may face § 102(a) and (b), and § 102(g) defenses and the prior activities, even if secret or abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a § 103 obviousness context alone or in combination with § 102.

8. A *bona fide* first inventor/trade secret owner's prior commercial use is available as a 102(g) prior art and because of the commercialization would not be held abandoned, suppressed or concealed. There is sufficient case law that supports this proposition. See, for example, *Dunlop Holdings v. Ram Golf*, (188 USPQ 481) (7th Cir. 1975)). In *Friction Division v. DuPont* (3 USPQ 2nd 1775 (D. Del. 1987)) the accused infringer defended on the basis of their own prior commercial use of the invention, albeit secret use. The court held that the prior use anticipated the patent because this prior invention had not been abandoned, suppressed or concealed:

Making the invention publicly known requires only that the public enjoy the benefits or the use of the prior invention. . . . Public use of the invention, without disclosing the details of it, is sufficient to negate any intention to abandon, suppress or conceal. (3 USPQ 2d at 1786.)

Opponents of prior user rights argue that *Gore v. Garlock* (220 USPQ 303) (CAFC 1983)) has put an end to the debate by resolving the conflict in favor of the patentee. Far from it? As I point out in another paper of mine, "Gore v. Garlock and the Respective Rights of Trade Secret Users and Patentees," a copy of which is likewise attached, that case involved § 102(a) and (b), not § 102(g) and the prior secret use was not by the alleged infringer but by a third party. Thus, a holding that a secret prior use by a third party does not invalidate a later patent is an entirely different proposition from a holding that a prior inventor/trade secret user is an infringer vis-a-vis a later inventor/patentee.

9. In addition, as detailed my attached JPOS article, other authors have advocated over the years and decades that such an *in personam* right or "shop right" or "intervening right" or "personal easement" is a first inventor's common law right, exists already in reissue law, would be required by principles of equity, and not according it would be taking property without compensation and, hence, would violate due process principles.

10. Herewith an illustrative sampling of quotes:

To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. (Ellis "Trade Secrets," § 180)

A Constitutional award to one inventor does not mandate a Constitutional penalty to another. (Bennett, "The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS 742, 747 (1975).)

In order to protect both patents and trade secrets from mutual destruction in the face of a conflict, *legislative action should be taken*. For the two systems to coexist, it is necessary for Congress to follow the footsteps of the other industrialized nations of the world and grant protection to both patents and trade secrets. (Burke, "The 'Non-Informing Public Use' Concept and its Application to Patent-Trade Secret Conflicts," 45 Albany Law Review 1060, 1077 (1981).)

11. The incidence of prior user rights problems arising in actual practice is very small, indeed. For example, in a recent ten-year period at CIBA-GEIGY, AG Switzerland, where they file yearly almost 1,000 patent applications, there were only three instances where prior user rights issues came up. The incidence of prior user disputes or issues arising is much less than interferences. Why? In order to get into an interference and prevail in an interference, all you have to prove is reduction to practice. The burden of proof with respect to prior user rights issues is much higher because you have to prove something way beyond reduction to practice and that is actual commercial use or preparation for commercial use. That's a much higher standard. Consequently, while the incidence of interferences is very low—and much lower for junior-party victories—the incidence of prior user rights is even less. As stated above, it came up only three times in a recent ten-year history in a big transnational company like CIBA-GEIGY and in two cases they prevailed while in one they did not. It was all settled amicably. They do what we are doing in this country when we settle interferences. They get together and "compare proofs." These are our prior use dates and they predate your patent filing. The party with the

stronger case prevails. Most of our interferences are settled in a similar way. We compare proofs and settle them amicably.

12. As regards H.R. 2235 I support and agree with its specific provisions except one. In other words, I find acceptable all the stated limitations and qualifications of prior use as a defense to infringement, to wit, it is a personal defense and not a general license, requires "commercial use" or effective and serious preparation, abandonment of the use negates it, has to be proven by one who relies on it, is not available in cases of derivation, is sanctionable if frivolously asserted and does not invalidate the given patent, but I have difficulty with the "One Year Limitation" provision (c)(6).

This provision goes too far and guts this prior user defense. It is too radical and stands well-established patent and trade secret law principles on their heads, notwithstanding the "Invalidity" provision (e). It also complicates this prior user right, which is already drastically limited and qualified, beyond reason. A first inventor is a first inventor and should be accorded the status of a first inventor especially in the one-year period prior to the entry of a rival inventor because it is in that period that the same invention is likely to be made by more than one inventor due to outside stimuli. The provision that requires good faith and rules out derivation effectively safeguards the second inventor/patentee. Also, reliance on the present one-year grace period is illusory and impractical because of the risk of loss of foreign patent rights, which even small businesses and universities attempt to obtain more and more often nowadays. Furthermore, the possibility to file provisional application also helps the second inventor. Thus, I respectfully submit that this provision is not only unnecessary but seriously flawed.

13. In conclusion, I submit that, from a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the later inventor's patent is invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the later inventor's patent, is not a free-for-all.

Thus, it is manifest and compelling that a right of prior user or *in personam* right should be enacted into law. It is badly needed. The arguments advanced in favor of such a right are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes now faced by first inventors/trade secret owners and second inventors/patentees.

Unless legislation is enacted providing protection for the prior user of a trade secret and also protection for the second independent inventor who secures a patent, there could be mutual destruction of patents and trade secrets and the legal situation woefully unsettled. The solution clearly is to let the patent stand without being invalidated by a prior trade secret use and the same time assure the trade secret holder that he will not be the subject of a later filed patent infringement suit. By protecting the rights of both parties the patentee would receive protection for his invention and the independent trade secret user would be allowed to continue using his invention. This solution would be in conformity with the *Kewanee* decision and would satisfy the constitutional mandate concerning the use of patents to promote the progress of the Arts and Sciences.

After all, a Constitutional award to one inventor does not mandate a Constitutional penalty to another, as Bennett said.

GORE V. GARLOCK AND THE RESPECTIVE RIGHTS OF TRADE SECRET USERS AND PATENTEEES

A Constitutional award to one inventor does not mandate a Constitutional penalty to another. Bennett.

I. INTRODUCTION

Patent law harmonization discussions at the World Intellectual Property Organization (WIPO) in Geneva have rekindled the debate about the respective rights of trade secret users and patentees, or more particularly, the rights of the first inventor/trade secret user as against those of the second inventor/patentee with respect to the same invention.

Article 308 of the proposed Treaty on the Harmonization of Patent Laws provides that:

. . . the owner of a patent shall not enjoy, under that patent, rights against activities within the scope of the patent, not authorized by him, of a person (the prior user) who, at the date of the filing of the application,

or where priority is claimed, at the priority date of the application on which the patent is granted, and with a view to industrial or commercial exploitation,

(i) was actually engaged in such activities, or

(ii) was engaged in serious preparation, involving, from the viewpoint of the prior user, significant investment, for such activities, in the territory and any other place or space to which the sovereignty of the Contracting State extends and in or for which State the patent is granted

According to an article by Angelo Notaro entitled "Patents and Secret Prior User Rights: A Comparative View" (Patent and Trademark Review, Vol. 81, No. 9, p. 347, 348, Sept. 1983), "provisions permitting the continuation of use initiated prior to the effective date of a patent application are found in the laws of more than thirty countries" and in some of those they have a long history dating back to the last century. For instance, Article 79 of the Japanese Patent Law provides that:

A person who, being unaware of the contents of an invention under patent application, made such invention himself, or acquired the knowledge of it from a person who being unaware of the contents of an invention under patent applications, made such invention, and who has been engaged in a business of working such invention or has been making preparations for such business in Japan at the time of filing of the application for patent is entitled to a nonexclusive license under the patent granted to such person.

and the statutory provision in Germany, which is typical, reads:

A patent shall have no effect against a person who, at the time of the filing of the application, had already used the invention in . . . Germany or had made the necessary arrangements for doing so. Such a person shall be entitled to use the invention for the purposes of his own business in his own plant or workshops of others.

Incidentally, the reasons behind the lack of a first-user right in the U.S., in contrast to other countries where such rights exist, has a lot to do with the "recognition of a limited novelty instead of an absolute novelty system and the recognition of a right to a patent in the first-to-invent, rather than the (first-to-file) wherein the first inventor is a *de jure* personage and not necessarily the actual first inventor" (Notaro, *supra* at 357).

II. STATUTORY PRECEDENTS AND PROPOSALS

Historically, recognition of the prior-use right was embodied in a statutory provision, at one time, namely, Section 7 of the Patent Act of 1836 but it was later removed. And two of the Patent Reform Bills introduced over the past twenty some years proposed such a right, i.e., S.1042 of 1967 vintage (90th Congress), which provided that a prior good faith inventor would have a personal defense as a "prior user" provided his actions had not caused a statutory bar effective against a subsequent inventor (Section 274) and H.R. 12873 (94th Congress, 1976), which would have made prior commercial manufacture of a claimed product or process, or substantial preparations there for, a defense in any patent infringement action (Section 282(b)). But these bills were not enacted.

In 1979, the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation recommended that the U.S. patent law be revised to provided that any prior use which is not obvious on inspection or analysis of a product, sold or available to the public, not bar patentability. In addition, it was suggested that the prior user be allowed to continue using the invention. (Final Report on Patent Policy, Feb. 6, 1979.) Nothing became of this proposal, either.

In 1982 the Patent, Trademark and Copyright (PTC) Section of the American Bar Association passed the following favorable resolution:

Resolved, that the Section of Patent, Trademark and Copyright Law favors in principle legislation providing an in personam right or right of prior public user to the first inventor who elects to keep his invention a trade secret, and further provides that the patent on the same invention which was independently discovered by a subsequent inventor shall not be held invalid based on the trade secret public use of the first inventor.

This resolution likewise went no place.

Interestingly, the PTC Section passed another resolution at a special harmonization meeting in Washington in September of 1989 opposing any right of prior

user. This was done after a debate in which the prior favorable resolution was not only disregarded but statements were made that the PTC Section always had come out against any such provision.

III. PRIOR USER RIGHTS IN SPECIAL SITUATIONS

Apart from historical precedents and recent legislative proposals, there are areas where something akin or tantamount to a prior user right already does exist. Notaro, *supra* at 357-361 lists a veritable litany of statutorily- or decisionally-created "co-uses," "forced sharing of inventions," "estoppels," "implied licenses," "intervening rights," "judicial recognition of prior user rights," etc. as, for example, shop rights, temporary uses of inventions on vessels or air crafts, intervening rights in reissue cases, co-uses in supplier/customer, manufacturer/distributor, contractor/contractee relationships, public interest situations where injunctive relief is denied, certain uses by government uses under the Clean Air and Atomic Energy Acts, compulsory licenses as a remedy for antitrust violations, etc.

Richard E. Bennett ("The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS, 742, 758, (1975)) in particular, dwells on "The Re-issue Analogy" and points out that:

The philosophy behind the reissue provision is that it would be unfair to enjoin a party from using that which he had no reason to believe would contravene a patent right. The equities are strengthened by a showing that the user has made substantial investment in the business sought to be enjoined by the patentee. Although his rights have not 'intervened' but are actually prior to the effective date of the patent, these are precisely the considerations which ought to militate against enjoining the trade secret owner who has previously used and probably invested large sums in creating and using the process duplicated later by the patentee.

If the purpose of the patent system is to promote reliance on patents by inventors so that the invention is promptly disclosed and yet that very system in a reissue situation envisions the possibility that intervening rights should, for equitable reasons, be respected, it makes no sense to urge that the patent system cannot tolerate concurrent use by the first inventor. Moreover, the intervenor and the trade secret owner share the common distinction of not owing knowledge of the invention to the patentee. Unlike the rest of the members of society who first learn the art from the patent, the intervenor and the trade secret owner are already in possession of that information. It would seem somewhat anomalous and arbitrary to sanction continued use of the intervenor and yet prohibit use by the trade secret owner under similar circumstances where the underlying policy considerations are analogous.

IV. CONTINUATION OF PRIOR USE DUE TO INVALIDATION OF PATENT OVER THE PRIOR USE

This is of course also true in a manner of speaking when the patent of the second inventor is invalidated due to the existence of the prior use or invention. It is a curious fact that there is actually no case on the books where as first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late comer patentee even though there are literally scores of cases where the second inventor prevailed on the issue of priority in an interference context. Notaro confirms this by stating that "no U.S. court has dealt with the prior user issue by deciding to let use continue without invalidating the patent" (Notaro, *supra* at 361) and, of course, neither the Supreme Court nor the Court of Appeals for the Federal Circuit has yet resolved the question of which of the two parties—the trade secret user or the patentee—has a superior right to the invention.

However, a spate of District/Circuit Court decisions cut the Gordian knot by holdings in favor of the first inventor/trade secret owner. The *Dunlop* case (*Dunlop Holdings Ltd. v. Ram Golf Corp.*, 188 USPQ 481) (7th Cir. 1975, *cert den.* 189 USPQ 256, 1976)), is undoubtedly the key case—clearly a landmark decision. It held that a noninforming use of an invention with secrecy intended, bars a patent to a subsequent inventor and it invalidated U.S. Patent No. 3,454,280 on a new kind of golf ball under Section 102(g).

The Seventh Circuit Court of Appeals in affirming the lower court said that an important distinction must be made between a "secret" use and a "noninforming" public use. Though the inventor didn't tell what made his golf balls unusual, he certainly made every effort to market them and they were in widespread public use before February 1965 (the date of Dunlop's British application, the earliest date it could claim under 36 U.S.C. 104).

The Court gave:

three reasons why it is appropriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to 'promote the progress of science and useful arts' it surely has not been suppressed in an economic sense. Second, even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monopoly protection, it would be unjust to hold that such an election should impair his right to continue diligent efforts to make the product of his own invention.

In *Westwood Chemical, Inc. v. Dow Corning Corp.*, 189 USPQ 649 (E.D. Mich. 1975), one finds the broadest and most drastic application of Section 102(g). A patent held by West wood on pigmented silicone elastomers was held invalid in the face of a Section 102(g) defense based on prior independent secret work done at Dow Corning. The court held that a:

"prior invention" which will invalidate a patent under 102(g) need not involve use of the invention in public. Prior private or secret knowledge is available as prior art. . . . This independent work of others is also clearly evidence of obviousness. (*Id.* at 666.)

The language in this holding as in many is quite loose if not confused (note, e.g., the reference to "secret knowledge;" "knowledge" is a bar only under Section 102(a) and only if it is public), but it seems that Dow Corning had a big-in-depth R&D project in this area while the Westwood patent was but a paper patent in the sense that first it was based on graphite chemistry and secondly was not in use. Again, apparently equity and justice considerations played a significant part, especially since a paper patent was involved.

Another case is *Grain Products v. Lincoln Grain*, 191 USPQ 177 (S.D. Ind. 1976), in which a patent applied for by defendant in 1960 on cold-waterdispersible cereal products was voided under Section 102(g) because in 1949 (!) an employee of plaintiff "produced gelatinized cereal adhesive on a plastic extruder . . . (and) made 35 tests (!) using corn meal and flour and varying moisture, die area, feed rate and extruder temperature." The court considered this work as the "prior invention of the subject matter" of defendant's patent by plaintiff's employee.

Also to be noted in this context are such cases as *Continental Copper and Steel Industries, Inc. v. New York Wire Co.*, 196 USPQ 30 (M.D. Pa. 1976), where the court, unlike in the two proceeding in cases, discussed at length the requirements and the burden of proof of a Section 102(g) defense but struck down Continental's patent nonetheless. This also happened in *Norris Industries, Inc. v. The Tappan Co.*, 193 USPQ 521 (C.D. Ca. 1976), aff'd 203 USPQ 169 (9th Cir. 1979).

However, *Philip Morris v. Brown & Williamson Tobacco*, 231 USPQ 321 (D.C. M.D. Ga 1986), a failed experiment was held not to be available as prior art under 35 U.S.C. § 103 by virtue of Sec. 102(g) in reliance on *Kimberly Clark v. Johnson & Johnson*, 223 USPQ 603 (CAFC 1984). (Hopefully, aberrations like *Westwood Chemical and Grain Products* are a thing of the past and this aspect of the law stands settled.)

According to some of the prior Section 102(g) decisions, the prior activities, even if abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a Section 103 context (*International Glass v. United States*, 159 USPQ 434, Ct. Cl. 1968). Thus, the latecomer patentee may also face Section 103, Section 102(g)/103 and likely also Section 102(a) and (b) defenses.

Interestingly, some older, pre-1952 cases have holdings in a similar vein. In the 1928 Supreme Court decision, *Corona Cord Tire Co. v. Dovan Chemical Corp.*, 276 U.S. 358 (1928), a patent was invalidated over prior experimental use and in *United Chromium v. General Motors Corp.*, 85 F.2d 577 (2d Cir. 1936), cert den. 300 U.S. 674 (1936), a patent was struck down over prior private use.

With respect to such decisions Roger Milgrim had this to say on the subject:

Actually as a non-patent lawyer, I am not terribly shocked by the result, for this reason: It seems to me that one of the key things that the courts expect from a patentee is that the patentee was the inventor. If you establish that the patentee was in fact not the inventor, you get into a very murky philosophical, economical and moral area as to whether a second "discoverer" should be given a 17-year period of exclusivity. (Proceedings ABA-PTC Section Meeting, Chicago, August 8, 1977, p. 137.)

And Stanley H. Lieberstein drew the following conclusion in a BNA Conference talk in 1979, entitled "The Commercially Utilized Trade Secret: Is It Prior Art?":

There is no case which flatly decides whether a prior inventor, trade secret owner, would have rights greater than a subsequent patentee, but it would seem fairly clear from the case law thus far that any patentee who maintained such a suit would run a substantial risk that his patent would be held invalid. A court is not only likely to find that the use by the trade secret owner, inherent in the definition of a trade secret, constitutes a public use but it is also possible that a trade secret owner could establish that he was the first inventor, that he was the first to reduce it to practice, and that he had not abandoned, suppressed or concealed it. In the latter event it appears that it would not even be necessary for a court to find a public use. (BNA Conference Course Book, "1979 Patent Conference: The Novelty Requirement And Other Important Aspects of 35 USC 102," Arlington, Va., Sept. 6-7, 1979, p. 339.)

In view of these decisions, I had concluded that it should be possible for a first inventor/trade secret owner to stand on his trade secret election rather than be "spurred into activity;" he need not file an application as a panic-stricken but self-defeating reaction the moment he is alerted to competitive activities, in order to get into or provoke an interference in the hope of settling it on the basis of a royalty-free license. (Jorda, "The Rights of the First Inventor-Trade Secret User As Against Those of The Second Inventor-Patentee," 61 JPOS 593, 603 (1979).)

However, we now have a new Court of Appeals for the Federal Circuit and one cannot be sanguine about the outcome of a case involving the issue of the respective rights if one came before it in view of such categorical statements in *Kimberly Clark v. Johnson & Johnson, supra*, as "the use of . . . secret (prior) art—as 103 'prior art'—except as required by 102(e) is not favored for reasons of public policy"—*In re Clemens*, 206 USPQ 289 (CCPA 1980), was relied on for this statement—and "[s]ecret uses do not constitute prior art" in *Gore v. Garlock*, 220 USPQ 220, 226 (D.C. N.D. Ohio 1982), aff'd 220 USPQ 303 (CAFC 1983).

V. GORE V. GARLOCK

W.L Gore & Associates v. Garlock, Inc. supra has been interpreted as putting an end to the debate by resolving the conflict in favor of the patentee. Far from it!

Garlock does address the issue of prior secret use. The patents in issue were: 1) Wilbert Gore's '915 patent on the 401 tape-stretching machine, filed October 3, 1969; 2) Robert Gore's (Wilbert's son) '566 patent on a process for stretching unsintered PTFE (teflon) at stretch rates greater than 10% per second at temperatures above 35°C, filed May 21, 1970; and 3) Robert Gore's '19390 patent on products by the '566 process, also filed May 21, 1970.

Robert Gore experienced tape breakage problems when stretching unsintered PTFE using the 401 machine, and began experimenting to find a solution. In late October of 1969, he discovered, contrary to conventional thought, that rapid stretching of unsintered PTFE produced a remarkable breathable yet waterproof material. The results of his research lead to the '566 and '390 patents. In August of 1969, Gore and Associates offered to sell PTFE tape to be made on the 401 machine. This tape was shipped on October 24, 1969.

Cropper, a New Zealand inventor, had developed and constructed a machine for producing stretched PTFE tape in 1966. In 1967 Cropper sent a letter to a Massachusetts company offering to sell his machine. The letter described the machine's operation and a photo was enclosed. Nothing came of this solicitation. In 1968 Cropper sold his machine to Butt, who thereafter used the machine to produce PTFE tape in the U.S. Budd's use of the machine was subject to a secrecy agreement.

Gore and Associates brought an infringement action against Garlock in the District Court. The District Court held claim one of the '566 patent anticipated under § 102(a) by Gore's use of the 401 machine (the court found the machine stretched at a rate greater than 10% per second at temperatures above 35°C at the time Gore filled the order for PTFE tape made using the 401 machine in October of 1969) and

use by Butt of the Cropper machine. The trial court also held all claims of the '566 patent invalid under 102(b) by Budd's use of the Cropper machine.

Gore appealed to the Federal Circuit. The Federal Circuit found the record to support the District Court's finding that the limitations of claim one of the '566 patent were met by Gore and Associates' use of the 401 machine before Robert Gore's asserted late October 1969 date of invention. Robert Gore had made no attempt to show an invention date earlier than the date of shipment of the PFTE tape made on the 401 machine. Citing *Shimadzu* (307 U.S. 5, 1938) the court held "the nonsecret use of a claimed process in the usual course of producing articles for commercial purposes is a public use." Gore, 721 F.2d at 1549, 220 USPQ at 309. Having found claim one thus invalid Budd's use of the Cropper machine was not considered as grounds for invalidating claim one under 102(a).

Addressing the District court's holding regarding 102(b), the Federal Circuit held that beyond the failure of the district court to consider the claims independently, and a failure of proof that the claimed inventions as a whole were practiced by Butt before the critical date, it was error to hold Budd's use was a public use, that activity having been secret. The Federal Circuit noted that Butt offered the tape for sale, not the process. Neither party contended that the public could learn the process from examining the tape. The Federal Circuit held that Butt and Cropper could forfeit patent protection on a patent filed more than a year after commercialization, but that there was no reason or statutory basis on which Budd's secret commercialization of the process could be held to bar the grant of patent to Gore on that process. The Federal Circuit remarked: "Early public disclosure is a lynchpin of the patent system. As between a prior inventor who benefits from a process by selling its product but suppresses, conceals, or otherwise keeps the process from the public, and a later inventor who promptly files a patent application from which the public will gain a disclosure of the process, the law favors the latter. See *Horwath v. Lee* 195 USPQ 701 (CCPA 1977)." Gore 220 USPQ at 310.

The Federal Circuit's reliance on *Horwath v. Lee* is misplaced. *Horwath* involved an interference where the junior party/prior inventor had waited some five years before filing his application. It is significant that the Court did not cite *Kewanee* or *Dunlop* to clarify its position of the rights of the prior inventor/trade secret owner. This is obviously due to the fact that the prior inventor and his licensee were not parties in interest. Their activity was merely cited by the alleged infringer as invalidating the plaintiff's patent. Had Gore gone after Butt the issue might have been squarely addressed.

In any event the holding of Gore has been limited to an interpretation of 102(b). See *In Re Caveny* 226 USPQ at 4 (CAFC 1985); *D.L. Auld Co. v. Chroma Graphics Corp.* 219 USPQ 13, 16 (CAFC 1983); and *J.A. LaPorte Inc. v. Norfolk Dredging Co.* 229 USPQ at 438 (CAFC 1986).

The rights of a prior inventor/trade secret owner under 102(g), given *Kewanee* and *Dunlop*, have not been squarely addressed, as stated above. Even if the Federal Circuit should uphold the patent of a subsequent inventor/patentee on reasoning similar to *Gore*, it is not at all clear that the prior inventor/trade secret owner would be enjoined, as infringer. 35 USC 283 states that "[t]he . . . courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity . . . on such terms as the court deems reasonable" (emphasis added). As Bennett points out: "The terms of this section (35 USC 283) are clear: injunctive relief is in the discretion of the court depending upon general principles of equity. The terms must be reasonable. . . . It would seem that injunctive relief in the circumstances posited herein could be interpreted as violating the trade secret owner's right to substantive due process." Bennett, *supra* at 755.

Actually, the *Gore v. Garlock* decision hardly established a new principle. In the 1940 case of *Gillman v. Stern*, 114 F.2d 28 (2nd Cir. 1940), was sued for infringing Gillman's patent on a pneumatic "puffing" machine for quilting. One of the defenses set up by Stern was that a third party, Haas, had invented the machine prior to Gillman. Haas, however, had exploited the invention as secretly as possible.

The parallels between the two decisions are striking. Of course, a holding that a secret prior use by a third party does not invalidate a later patent is an entirely different proposition from a holding that a prior inventor/trade secret user is an infringer vis-a-vis a later inventor/patentee.

VI. VIEWS OF COMMENTATORS

Over the years and decades, many authors have recommended that the prior user be indeed granted a limited prior user or *in personam* right permitting him to continue to practice his invention. See, for instance, Benjamin, "The Right of Prior Use," 26 JPOS 329 (1944); Gambrell, "The Constitution and the In Personam De-

sense of First Invention," 39 JPOS 791 (1957); Gambrell et al., "The Second Inventor's Patent, The Defense of First Invention and Public Policy," 41 JPOS 388 (1959); and, in particular, and more recently, Bennett, *supra*, who even felt that such a right could be fashioned by courts without resort to legislation and that such a right would avoid an unconstitutional reading of Section 102(g) (P.747); Burke (The 'Non-Informing Public Use' Concept and its Application to Patent-Trade Secret Conflicts," 45 Albany Law Review 1060, 1981) who reasoned that:

In order to protect both patents and trade secrets from mutual destruction in the face of a conflict, *legislative action should be taken*. For the two systems to coexist, it is necessary for Congress to follow the footsteps of the other industrialized nations of the world and grant protection to both patents and trade secrets. (P. 1077.).

and Notaro, *supra*, who concluded that "equity and public policy considerations favoring the recognition of an *in personam* right clearly reflect the Kewanee (*Kewanee Oil Co. v. Bicron Corp.*, 181 USPQ 673, 1974) willingness to accept both patents and trade secrets as compatible forms of protection for technological development" (p. 361).

Lastly, K. Hormann and R.L. May, in their paper on "Prior Users' Rights," delivered at the 19th PIPA Congress held in Toba City, Japan, October 1988, had the following conclusion:

In the United States, a bona fide prior user of a subsequently patented invention may probably continue using the invention. Earlier statutes expressly gave him such a right. Under modern practice, the right may be inferred from the fact his prior use is in the nature of private property vested in him by common law.

By way of suggestion to those advocating harmony among the three patent systems . . . I would say that the Japanese and German statutes relating to prior users appear to be of greater benefit to society at large and that the U.S. should it adopt a first-to-file system, would benefit from a similar statute because it has a potential for reducing current elaborate legal disputes.

See also Milgrim, "Trade Secrets," § 8.02(3):

In practical effect, the foregoing analysis creates a kind of 'shop right' in the first inventor and his assigns and licensees predating the second inventor's patent issuance.

And Ellis, "Trade Secrets," § 180, speaks of "intervening rights":

On general grounds it would appear that intervening rights should exist in favor of one who has made a substantial investment to enable the public to buy the product of his machine or process. The secret user learned nothing from and owes nothing equitably or legally to the subsequent inventor. If the latter is granted a patent, it should not be enforceable against the prior secret user.

* * * * *

To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. A user of a secret process or machine would never know when he would wake up to find he had to stop using his process machine in which he had perhaps invested thousands of dollars and built up a substantial business.

Yet another author called it a "personal easement on the invention." Silverstein, "The Value of Patents in the United States and Abroad . . .," (8 Cor. Int'l L. Rev. 135, 1975).

At any rate, no explicit statutory or decisional "right of prior user," "personal easement" or "*in personam* right" exists in this country. But the above authors have pointed out that such right

- 1) Is a first inventor's common law right,
- 2) Exists already in reissue law,
- 3) Would be required by principles of equity,
- 4) And not according it would be taking property without compensation and, hence, would violate due process principles.

Two articles appeared recently in "The Computer Lawyer" (George H. Gates III, "Trade Secret Software: Is It Prior Art?", Vol. 6, No. 8, August 1989, p. 11) and the "Journal of the Patent and Trademark Office Society," (Lisa M. Brown Lee, "Trade Secret Use of Patentable Inventions, Prior User Rights and Patent Law Harmonization: An Analysis and Proposal," (JPOS, Vol. 72, No. 6 June 1990 p. 523), respectively. Both argue against implementing prior user rights.

VII. CONCLUSION

From a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the later inventor's patent is either invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the later inventor's patent, is not a free-for-all.

Thus, it is manifest and compelling that a right of prior user or *in personam* right should be enacted into law. It is badly needed. The arguments advanced in favor of such a right are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes now faced by first inventors/trade secret owners and second inventors/patentees.

Unless legislation is enacted providing protection for the prior user of a trade secret and also protection for the second independent inventor who secures a patent, there could be mutual destruction of patents and trade secrets and the legal situation woefully unsettled. The solution clearly is to let the patent stand without being invalidated by a prior trade secret use and the same time assure the trade secret holder that he will not be the subject of a later filed patent infringement suit. By protecting the rights of both parties the patentee would receive protection for his invention and the independent trade secret user would be allowed to continue using his invention. This solution would be in conformity with the *Kewanee* decision and would satisfy the constitutional mandate concerning the use of patents to promote the progress of the Arts and Sciences.

After all, a Constitutional award to one inventor does not mandate a Constitutional penalty to another, as Bennett said.

*Journal of the Patent Office Society**Karl F. Jorda*

**THE RIGHTS OF THE FIRST
INVENTOR-TRADE SECRET
USER AS AGAINST THOSE OF
THE SECOND INVENTOR.
PATENTEE (PART II)**

THE TRADE SECRET USER PREVAILS

I. Introduction

While I agree with Frank E. Robbins' statement in the preceding article that the issue of the respective rights of the first inventor who elects to hold and use patentable subject matter as a trade secret and the second independent inventor who seeks and obtains patent protection thereon, is "a fundamental one", I dissent - respectfully but strenuously - from his conclusions that it "is clear that the patent of the second inventor is not invalid by reason of the prior commercial but secret, non-informing use of the trade secret" and that "the patent of the second inventor [is definitely] good as against all members of the public, including the secret user, so that the secret user infringes".

It is noteworthy that Frank E. Robbins supports his conclusions by reliance on cases of considerable *vintage*. Their relevance and validity in this day and age, however, are open to question, to say the least. It is also notable that he ignores such *recent* landmark cases as *Dunlop Holdings Ltd. v. Ram Golf Corp.*¹ and *Kewanee Oil Co. v. Bicron Corp.*² as well as several other cases of import in this area.

In a narrow conventional patent context the conclusions drawn by Frank E. Robbins may still have a good deal of appeal and plausibility. However, in a broader industrial property context and from a scrutiny of recent decisional developments in both the patent and trade

¹ 188 USPQ 481 (7th Cir. 1975), *cert. den.* 189 USPQ 256 (1976).

² 416 U.S. 470, 181 USPQ 673 (1974).

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secret fields, the conclusion can confidently be drawn that it is now indeed possible and safer for a first inventor/trade secret owner to stand on his trade secret election inasmuch as his trade secret constitutes prior art and the late-comer patentee ends up with an invalid patent.

At the very least, the matter of the conflict between the first inventor/trade secret owner and the second inventor/patentee is, in view of the decisional developments of recent years, as discussed below, an open and unresolved issue in industrial property law³ for which, however, there is an ideal, albeit legislative, solution: a trade secret owner's *in personam* right to continue to practice his trade secret.

II. Recent Trade Secret Decisions

As indicated above, Frank E. Robbins' conclusion must be controverted, on the one hand, because of recent decisions in the area of trade secret law, which clarify the status of trade secrets vis-a-vis patents and which put trade secrets on a higher pedestal. It is now clearer that trade secrets are a viable alternative to patents and have a definite place in industry. The Supreme Court decision in *Kewanee Oil v. Bicron*, *supra*, comes first to mind. The facts are too well-known to be repeated here. The holding is the important thing and the holding in a nutshell is that state trade secret law is not preempted by the federal patent law.

More specifically, the Court held:⁴

Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict.

* * *

³ See New York Patent Law Association Bulletins, Vol. 14, No. 5, Dec. 1974-Jan. 1975 and Vol. 16, No. 3, 1976-1977, which summarize dinner and luncheon talks by Roger M. Milgrim, and 45 Geo. Wash. L. Rev. 296, 299-300 (1977) where Roger M. Milgrim reviews Rosenberg's book "Patent Law Fundamentals" and criticizes Rosenberg for treating "as a simple and closed question" this "extremely important open issue."

⁴ 181 USPQ at 679 and 682.

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Trade secret law and patent law have coexisted in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other.

• • •

We conclude that the extension of trade secret protection (even) to clearly patentable inventions does not conflict with the patent policy of disclosure.

This last quotation is the clincher because it followed a three-way categorization of trade secrets (clearly unpatentable, of doubtful patentability and clearly patentable) and a recognition that "the federal interest in disclosure is at its peak" with respect to the third category.⁵

The more recent Supreme Court decision, *Aronson v. Quick Point Pencil Co.*,⁶ has, if anything, further strengthened the bases for trade secret reliance.

III. Section 102(g) Decisions

On the other hand, Frank E. Robbins' conclusions are controvertible because of recent decisions in the patent field, especially in the area of Section 102(g).

1. The Dunlop Decision

With respect to the specific issue before us, the *Dunlop* case, *supra*, is undoubtedly the key case - clearly a landmark decision - and therefore merits a more thorough treatment. It held that a noninforming use of an invention, with secrecy intended, bars a patent to a subsequent inventor and it invalidated U.S. Patent No. 3,454,280 on a new kind of golf ball under Section 102(g).

The facts are as follows: In the Spring of 1964 a certain "Butch" Wagner was interested in producing a golf ball cover that would resist cutting. About the same time DuPont was trying to find a commercial use for a new synthetic marked "Surlyn". Before long, Wagner was experimenting with "Surlyn." By November 1964, he had developed a suitable formula which he wrote down and gave to his daughter for safekeeping.

⁵ *Id.* at 681.

⁶ 201 USPQ 1 (1979).

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Meantime, Wagner gave friends and golf pros his "Surlyn"-covered balls to try out on the course, and they were a great success. He continued to experiment but by February 1965 Wagner had received orders for over 1,000 dozen of his balls. By the Fall of 1965 he had ordered enough "Surlyn" to produce more than 900,000 balls. He died in October 1965, without having applied for a patent.

In Great Britain, however, somebody had applied for a patent, namely, on February 10, 1965. And then a U.S. application was filed on February 2, 1966. Dunlop wound up owning the British and American patents issued as a result. When Ram Golf started marketing a "Surlyn"-covered ball in this country, Dunlop sued for infringement of its U.S. patent.

Ram Golf asserted that Dunlop's patent was invalid because a valid U.S. patent cannot be obtained if the invention was made earlier in this country by somebody who had not abandoned, suppressed, or concealed it. Naturally, Dunlop latched onto that clause, arguing that Wagner had suppressed and concealed his invention because he had never let anybody know what the magical secret ingredients were. In addition, the golf ball defied analysis.

But the Seventh Circuit Court of Appeals in affirming the lower court said that an important distinction must be made between a "secret" use and a "noninforming" public use. Though Wagner didn't tell what made his golf balls unusual, he certainly made every effort to market them and they were in widespread public use before February 1965 (the date of Dunlop's British application, the earliest date it could claim under 35 U.S.C. Section 104).

The court gave

three reasons why it is appropriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to 'promote the progress of science and useful arts', it surely has not been suppressed in an economic

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sense. Second, even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before the time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monopoly protection, it would be unjust to hold that such an election should impair his right to continue diligent efforts to make the product of his own invention.

2. Applicability of Dunlop Rationale to Present Fact Pattern

Does this three-pronged rationale of the *Dunlop* decision apply to the fact pattern outlined by Frank E. Robbins, where no product is on the market that is subject to reverse engineering or analysis—indeed, even though it defies it, as in the *Dunlop* case? I submit it does. Firstly, without peradventure of a doubt there is a benefit to the public and no suppression in an economic sense, precisely as in the *Dunlop* case. Secondly, the point that the secret is likely to be uncovered before patent expiration clearly applies, too, though not by way of reverse engineering or analysis but rather because trade secrets can be considered as “wasting assets” whose average life perhaps is only about three years. Besides, independent creation is quite likely as was recognized by the Supreme Court in the *Kewanee Oil* case:⁷

Even were an inventor to keep his discovery completely to himself, something that neither the patent nor trade secret laws forbid, there is a high probability that it will be soon independently developed. If the invention, though still a trade secret, is put into public use, the competition is alerted to the existence of the inventor's solution to the problem and may be encouraged to make an extra effort to independently find the solution thus known to be possible.

⁷ 181 USPQ at 681.

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It may be a little more difficult to apply the third point in the *Dunlop* rationale but I submit that this can also be done without too much stretching. Independent creation is indeed possible if not likely; several employees usually know the trade secret; suppliers may also be "in the know"; governmental agencies may likewise be informed; there may be a licensee or several who definitely would have the details; the trade secret may get out by way of misappropriation.

The authors of Patent Law Perspectives criticized this decision, stating that Judge, now Justice, Stevens "led a panel of the Seventh Circuit astray." Hitting the nail on the head, they continued:

The appeals court apparently couldn't bear to treat Wagner's active use of Surlyn covered golf balls as concealment or suppression of the invention under Section 102(g), even though it did not teach the public how to practice the claimed invention. As noted, the court was convinced that the public had received the 'benefit'.^{7*}

3. Other Recent Decisions

In *Westwood Chemical, Inc. v. Dow Corning Corp.*,⁸ one finds an even broader and more drastic application of Section 102(g). A patent held by Westwood on pigmented silicone elastomers was held invalid in the face of a Section 102(g) defense based on prior independent secret work done at Dow Corning. The court held that a

'prior invention' which will invalidate a patent under § 102(g) need not involve use of the invention in public. Prior private or secret knowledge is available as prior art. . . . This independent work of others is also clearly evidence of obviousness.⁹

The language in this holding as in many is quite loose if not confused (note, e.g., the reference to "secret knowledge"; "knowledge" is a bar only under Section 102(a) and only if it is public), but it seems that Dow Corning had a big in-depth R&D project in this area

^{7*} PLP, §A. 3[1] of '76 Dev., p. 38-39.

⁸ 189 USPQ 649 (E.D. Mich. 1975).

⁹ *Id.* at 666.

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while the Westwood patent was but a paper patent in the sense that first it was based on graphite chemistry and secondly was not in use. Again, apparently equity and justice considerations played a significant part, especially since a paper patent was involved.

Another case is *Grain Products v. Lincoln Grain*,¹⁰ in which a patent applied for by defendant in 1960 on cold-water-dispersible cereal products was voided under Section 102(g) because in 1949 (!) an employee of plaintiff "produced gelatinized cereal adhesive on a plastic extruder . . . (and) made 35 tests(!) using corn meal and flour and varying moisture, die area, feed rate and extruder temperature". The court considered this work as the "prior invention of the subject matter" of defendant's patent by plaintiff's employee. Based on this prior work the court went on to hold the patent also invalid under Section 103.

Also to be noted in this context are such cases as *Continental Copper and Steel Industries, Inc. v. New York Wire Co.*,¹¹ where the court, unlike in the two preceding cases, discussed at length the requirements and the burden of proof of a Section 102(g) defense but struck down Continental's patent nonetheless. This also happened in *Norris Industries, Inc. v. The Tappan Co.*¹² There has been a greater frequency of reliance on Section 102(g) and a greater incidence of invalidity holdings based on Section 102(g). Klitzman found that in 1974 there were two Section 102(g) invalidity holdings for every validity holding in the face of a Section 102(g) defense or attack.¹³ In 1976 the ratio appears to be more like six to one.¹⁴

¹⁰ 191 USPQ 177 (S.D. Ind. 1976).

¹¹ 196 USPQ 30 (M.D. Pa. 1976).

¹² 193 USPQ 521 (C.D. Cal. 1976), *aff'd* 203 USPQ 169 (9th Cir. 1979).

¹³ Klitzman, "35 USC 102 (g) As Establishing Prior Art", 58 JPOS 505, 521 (1976).

¹⁴ Jorda, "Section 102(g) Prior Invention as Section 103 Prior Art", Lecture at 21st Annual Conference, John Marshall Law School, Chicago, Ill., Feb. 25, 1977.

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IV. Miscellaneous Considerations

There is more bad news for the second inventor/patentee. According to some of the Section 102(g) decisions, the prior activities, even if abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a Section 103 context.¹⁵ Thus, the late-comer patentee may also face Section 103, Section 102(g)/103 and possibly also Section 102(b)^{15a} defenses.

Curiously, some older, pre-1952 cases have holdings in a similar vein. In the 1928 Supreme Court decision, *Corona Cord Tire Co. v. Dovan Chemical Corp.*,¹⁶ a patent was invalidated over prior experimental use and in *United Chromium v. General Motors Corp.*¹⁷ a patent was struck down over prior private use.

If there is a general rule that can be deduced from all of these and other apposite cases it is this: A second inventor can obtain a valid patent only if the first inventor's work amounted to nothing more than an abandoned experiment, i.e. where his invention was not developed, scaled-up and used commercially—or if he rediscovered a "lost art." And should he have but a paper patent, he certainly has a lost cause.

It is also a curious fact that there is actually no case on the books where a first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late-comer patentee even though there are literally scores of cases starting from before *Mason v. Hepburn*^{17a} where the second inventor prevailed on the issue of priority in an interference context. Nonetheless, it has generally been assumed that this can happen. Hence, the race to the PTO *ab initio* or after being spurred into activity by a competitor, e.g., through his

¹⁵ *International Glass v. United States*, 159 USPQ 484 (Ct. Cl. 1968).

^{15a} Prior public use statutory bar which was an alternative defense in the *Dunlap* case also.

¹⁶ 276 U.S. 358 (1928).

¹⁷ 85 F.2d 577 (2d Cir. 1936), cert. den. 300 U.S. 674 (1936).

^{17a} 13 App. D.C. 86 (D.C. Cir. 1898).

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commercial activities or his United States or foreign patent publications.

Note that Charles Brainard concluded in the 1975 PLI Trade Secret Program¹⁸ that

even a second inventor may secure a patent and enjoin a first inventor who has kept the development secret and not diligently applied for a patent even though he has commercially used the development.

and he relies on *Palmer v. Dudzik*,¹⁹ for this conclusion. This case, as well as *Brokaw v. Vogel*²⁰ and *Young v. Dworkin*,²¹ are sometimes mentioned in this context.

However, as was stressed by Bennett,²² the CCPA's pronouncement "is purely *dicta*, if that, since the CCPA has no jurisdiction with respect to enforcement of a patent nor was that legal question before it. The decision was merely a determination of priority in an interference context." In other words, for ~~a second inventor to obtain a patent and to enforce it are different positions entirely.~~

Since no one seriously questions the proposition, found in such priority cases, that the trade secret owner is not entitled to seek patent protection after steps are taken to maintain secrecy, there is really no conflict between this line of CCPA cases and the line of district/circuit court cases as represented by the *Dunlop* case. In none of these reversed priority situations, starting with *Mason v. Hepburn*, has the second inventor/patentee apparently tried to then stop the first inventor/trade secret owner. Why not? This is an intriguing question. Bennett speculated that such a late-comer patentee may be afraid of putting his patent on the block knowing he was not the first to invent.²³ On the other

¹⁸ Milgrim, "Protecting and Profiting from Trade Secrets", PLI 1975, p. 129.

¹⁹ 178 USPQ 608 (CCPA 1973).

²⁰ 166 USPQ 428 (CCPA 1970).

²¹ 180 USPQ 388 (CCPA 1974).

²² Bennett, "The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS 742, 747 (1975).

²³ *Id.* at 742, footnote 2.

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hand, it is not inconceivable that the first inventor/trade secret owner felt, in line with the common understanding, that he had a lost cause and took a royalty-bearing license if the interference had not been settled amicably before. Also and importantly, the trade secret owner might in most cases rather pay a small tribute to the patentee so that patent coverage continues and other competition is shut out.

Questions relative to the meaning of "suppression" and "concealment" and whether these terms are synonymous or mean different things are more semantic and academic in nature than of practical import in this context and need not be dissected here. In a trade secret frame, we are really dealing only with the question of "concealment" according to Bennett.²⁴ But even apart from the *Dunlop* doctrine and *Westwood Chemical* holding, concealment would clearly not exist if the trade secret owner had licensed the invention or otherwise disclosed it even though this was done under conditions of confidentiality.

More and more authors show an awareness that the pendulum is swinging toward recognition of the rights of the first inventor/trade secret owner as superior over those of the "Johnny-come-lately" inventor/patentee. Bennett concluded with reference to this issue that a Constitutional award to one inventor does not mandate a Constitutional penalty to another.²⁵

In a lengthy and analytical 1963 article,²⁶ the authors pointed out that Section 102(g) is "a 'sleeper' provision which defeats the patentee on a fact situation wherein the Patent Office granted a patent because no machinery existed for inquiring into priority as between rival inventors, one of whom had not claimed the invention in a patent application", and that "defensive patenting", a fairly wide-spread practice, was an unnecessary exercise because Section 102(g) could be invoked as a defense instead.

²⁴ *Id.* at 746.

²⁵ *Id.* at 748 and 762.

²⁶ Oisher et al., "The Role of the Prior Inventor Under Section 102(g)" 45 JPOS 595, 619 (1963).

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Roger Milgrim had this to say on the subject:

Actually as a non-patent lawyer, I am not terribly shocked by that result, for this reason: It seems to me that one of the key things that the courts expect from a patentee is that the patentee was the inventor. If you can establish that the patentee was in fact not the inventor, you get into a very murky philosophical, economical and moral area as to whether a second "discoverer" should be given a 17-year period of exclusivity.²⁷

Most recently, Stanley H. Lieberstein drew the following conclusion in a BNA Conference talk, entitled "The Commercially Utilised Trade Secret: Is It Prior Art?":

There is no case which flatly decides whether a prior inventor, trade secret owner, would have rights greater than a subsequent patentee, but it would seem fairly clear from the case law thus far that any patentee who maintained such a suit would run a substantial risk that his patent would be held invalid. A court is not only likely to find that the use by the trade secret owner, inherent in the definition of a trade secret, constitutes a public use but it is also possible that a trade secret owner could establish that he was the first inventor, that he was the first to reduce it to practice, and that he had not abandoned, suppressed or concealed it. In the latter event it appears that it would not even be necessary for a court to find a public use.^{27*}

In view of these newer developments, it should now indeed be possible and safer for a first inventor/trade secret owner to stand on his trade secret election rather than be "spurred into activity." He need not file an application as a panic-stricken but self-defeating reaction the moment he is alerted to competitive activities, in order to get into or provoke an interference in the hope of settling it on the basis of a royalty-free license.

²⁷ Proceedings ABA-PTC Section Meeting, Chicago, Aug. 8, 1977, p. 137. See also PLI Course Handbook Series No. 90 "Current Developments in Patent Law 1978" p. 218, where Donald Sell opines that an ~~infringement~~ suit against a prior ~~inventor~~ is not likely to succeed.

^{27*} BNA Conference Course book, "1979 Patent Conference: The Novelty Requirement And Other Important Aspects of 35 USC 102", Arlington, Va., Sept. 6-7, 1979, p. 399.

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V. *The Trade Secret Owner's In Personam Right*

In dealing with this subject many authors have recommended that the first inventor/trade secret owner be granted a limited *in personam* right permitting him to continue to practice his invention/trade secret. See, for instance, Benjamin, "The Right of Prior Use",²⁸ Gambrell, "The Constitution and the In Personam Defense of First Invention",²⁹ Gambrell et al., "The Second Inventor's Patent, The Defense of First Invention, and Public Policy",³⁰ and, in particular and more recently, Bennett, *supra*, who even felt that such a right could be fashioned by courts without resort to legislation and that such a right would avoid an unconstitutional reading of Section 102(g). See also Milgrim, "Trade Secrets", § 8.02(3):

In practical effect, the foregoing analysis creates a kind of "shop right" in the first inventor and his assigns and licensees predating the second inventor's patent issuance.

And Ellis, "Trade Secrets", § 180, speaks of "intervening rights":

On general grounds it would appear that intervening rights should exist in favor of one who has made a substantial investment to enable the public to buy the product of his machine or process. The secret user learned nothing from and owes nothing equitably or legally to the subsequent inventor. If the latter is granted a patent, it should not be enforceable against the prior secret user.

* * * *

To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. A user of a secret process or machine would never know when he would wake up to find he had to stop using his process or machine in which he had perhaps invested thousands of dollars and built up a substantial business.

²⁸ 26 JPOS 329 (1944).

²⁹ 39 JPOS 791 (1957).

³⁰ 41 JPOS 388 (1959).

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From a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the later inventor's patent is either invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the later inventor's patent, is not a free-for-all.

In conclusion, I submit there should be such a thing as an *in personam* right. It is badly needed. It exists by statute abroad, especially in the major industrialized nations.⁸⁵ The arguments advanced in favor of an *in personam* right are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes of either having the first inventor/trade secret owner bow and scrape to the second inventor/patentee in a situation where the first inventor made substantial investments or having the second inventor/patentee end up with an invalid patent in a situation where the first inventor kept the invention secret and took no steps to disclose it to the public.

⁸⁵ The German "Vorbenutzungsrecht" (Right of Prior User) provision is representative:

"A patent shall have no effect against a person who, at the time of the filing of the application, had already used the invention in . . . Germany or had made the necessary arrangements for doing so. Such a person shall be entitled to use the invention for the purposes of his own business in his own plant or workshops of others." (Sinott, 2B "World Patent Law & Practice", 1974).

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Yet another author called it a "personal easement on the invention".³¹

The contrary position, a position espoused by patent advocates, has been expressed as follows:

(W)hen the choice is made to forego a patent and to rely on trade secret protection . . . the inventor assumes the risk of being enjoined by a later patentee. A corollary to this approach views the trade secret right not as a vested property right but as analogous to an estate subject to a reversionary interest, enjoyed until the happening of a contingent event (issuance of a patent) at which time the property reverts to another (the patentee).³²

This rationale, according to Bennett,

begs the question because it can hardly be an assumed risk when (1) *Kewanee* teaches that trade secrets and patents are not incompatible (2) no court has ever decided a case in which the issue was even raised.³³

Frankly, I cannot see how a court in these times of anti-patent bias could rule against a first inventor/trade secret owner, especially if a genuine, "blue-ribbon" trade secret and a successful commercial product based on a very substantial investment were involved.

At any rate, no explicit statutory or decisional "shop-right", "intervening right", "personal easement" or "in personam right" exists in this country. And none of the recent Patent Reform Bills even contemplated one —save one early exception³⁴—and no court is likely to create one. But the above authors have pointed out that such right is a first inventor's common law right, exists already in reissue law, would be required by principles of equity, and not according it would be taking property without compensation and hence, would violate due process principles.

³¹ Silverstein, "The Value of Patents in the United States and Abroad. . . .", 8 *Corn. Int'l L. Rev.* 135 (1975).

³² Bennett, 57 JPOS at 756, footnote 41.

³³ *Id.*

³⁴ S.1042 of 1967 vintage (90th Congress) provided that a prior good faith inventor would have a personal defense as a "prior user" provided his actions had not caused a statutory bar effective against a subsequent inventor (Section 274).

Mr. MOORHEAD. Thank you. Mr. Schwaab.

**STATEMENT OF RICHARD L. SCHWAAB, PROFESSOR OF LAW,
GEORGE MASON UNIVERSITY SCHOOL OF LAW**

Mr. SCHWAAB. Mr. Chairman, it's a pleasure for me to be here today to testify on H.R. 2235.

Many of my comments have already been aptly set forth by my colleagues and so I won't repeat those. I'd like to make a few general observations from a comparative standpoint, an international law comparative standpoint. Most other countries in the world have a type of prior user right. Now this isn't necessarily in and of itself a good reason for us to have one, but in this case I believe that this legislation reflects a policy which is beneficial for our country.

I think we're all well aware that there is a great competition going on out in the world for jobs between the United States and not just the developed countries anymore, but also many more of the developing countries. I believe that a prior user right is in the best interest of the United States in competing in the worldwide market for those jobs.

From a historical perspective, there is a strong pressure placed on inventors in this country to file patent applications. The risk of not filing is that one can be enjoined by a patent issued to a later inventor. I think this is one reason why there are not a lot of cases in this area simply because of the strong pressure for inventors and U.S. companies to file patent applications covering their inventions. But we know there is a strong incentive to publish information for the progress of the useful arts; however, we should distinguish between publishing technical information for the progress of the arts on the one hand and publishing that information so that it can simply be appropriated by foreign competitors who reside in jurisdictions which perhaps do not have adequate intellectual property protection or jurisdictions in which the procedural system for going forth to enforce those rights is inadequate. For example, where there is no discovery provided, and, therefore, even if a U.S. company were to own intellectual property rights in the foreign country, there would be no practical way of enforcing those rights against someone who had simply copied the U.S. company's technology.

We should recognize that this legislation from a practical standpoint only applies to a fairly limited type of technology. These are the process type inventions, software, and in some cases equipment, the sorts of technology that are amenable to protection under our trade secret laws. I believe in my experience that a great deal of money is spent today by American companies seeking so-called defensive patents. Defensive patents, these are patents which are not of great commercial interest to them, but ones that they obtain merely in order to protect themselves against a subsequent inventor issuing a patent covering technology that they had themselves earlier invented and decided to maintain as a trade secret.

The cost of obtaining patents and the cost of enforcing patents has grown by staggering proportions. The cost of procuring, maintaining, and enforcing patent portfolios in foreign countries is today almost prohibitive for small- and medium-sized companies. I be-

lieve that much of this money could be better spent developing the technology resources of American companies rather than pursuing defensive patent rights.

In summary, this legislation favors domestic industry. It will have a tendency to discourage those who would simply knock off our valuable American technology and turn it against us to compete against our own industry and for these reasons I support this legislation.

[The prepared statement of Mr. Schwaab follows:]

PREPARED STATEMENT OF RICHARD L. SCHWAAB, PROFESSOR OF LAW, GEORGE MASON UNIVERSITY SCHOOL OF LAW

Mr. Chairman, thank you for permitting me to testify today concerning *The Prior Domestic Commercial Use Act of 1995*.

My name is Richard L. Schwaab, Professor of Law on the Adjunct Faculty of George Mason University School of Law. I also am a member of Foley & Lardner, a national law firm with a strong concentration on intellectual property. I testify today on my own behalf, and not necessarily for any organization with which I may be affiliated.

I first became acquainted with the subject of the present legislation twenty-four years ago when I was a Research Fellow at the Max Planck Institute in Munich. I have always wondered why legislation of this type—that strictly benefits those who *domestically* commercialize an invention—had not been seriously considered for this country. This is particularly remarkable when one recognizes that most of the world has had legislation comparable to the present legislation since before the beginning of this century. The prior user right is indeed so key to international patents that in the very initial Paris Convention of 1883 the *reserve des droits des tiers* or “reservation of the rights of third parties” was placed as a cornerstone to this international treaty. A prior user right has long been considered an integral part of a patent system built on first-to-file principles.

There is every reason to support this legislation today. Others have eloquently spoken or written on the prior user right legislation. I would like to add my own comparative view, both in terms of the progress of industry over the past fifty years as well as from the international standpoint.

METALLIZING ENGINEERING DOCTRINE FROM FIFTY YEARS AGO

There is an undue pressure on industry to file patent applications on inventions that they feel reasonably comfortable can be maintained in secret, particularly chemical manufacturing processes. When “the commercial world” fifty years ago comprised largely the United States industry, at that time one could see a bias favoring strong inducements for industry to use the patent system:

(1) Get inventions into the patent system so that *domestic* competitors would gain access to the latest technology, in order to study this technology and make improvements to further strengthen both progress of the useful arts and free competition.

(2) Competition at the high tech end in a war-ravaged Asia and Europe was largely domestic in nature, so there was little concern at that time for foreigners copying American technology from granted patents.

(3) If a domestic competitor was unfair and sought to unscrupulously copy technology to make products that otherwise would not show what technology had been used to make such products, the strong American system of discovery would permit unearthing the truth of the matter.

In the post-war era, Judge Learned Hand tipped the scales dramatically toward forcing industry to file patent applications. This was done in the landmark judicial legislation called the *Metallizing Engineering Doctrine*, named after *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir.), cert. denied, 328 U.S. 840 (1946). While the case is nearly fifty years old, it remains the law today, as it has been adopted by the Federal Circuit in *Kinzenbaw v. Deere & Co.*, 741 F.2d 383 (Fed. Cir. 1984), cert. denied (1985).

What hurts the owner of process technology under U.S. law is that if he or she maintains the technology in a secret commercial facility, on the first anniversary of such commercialization even in secret, the owner of that technology forfeits a right to a patent. Thus, while at first blush one might think that a patent interference could be declared between a junior inventor of the same technology, the patentee

is out at the starting gate because the commercialization bar only blocks the patent owner and not the junior inventor.

WHAT'S NEW SINCE METALLIZING ENGINEERING

Today, the chief threat of competition for chemical process inventions is not from domestic competitors, but rather from overseas concerns that often operate under laws without any "discovery" system and without any effective way to police operations.

Under the policy of *Metallizing Engineering*, the American process technology owner is pushed into filing patent applications, yet as soon as a patent is granted or one of his patent applications published, a "cook book" example of the technology finds its way around the world in the form of the disclosure of the granted patent or published application. Moreover, advances in automation have made it possible to carry out high tech manufacturing in many more of the developing countries than heretofore.

There is nothing that the American patent holder can do from a practical standpoint to block the use of that technology, at least in many countries. It is notorious that other countries lack our discovery system. There is, of course, no direct extraterritorial effect of our patent law in other countries, and in view of the extremely high cost of securing and maintaining a foreign patent portfolio today, many small- and mid-sized U.S. companies simply cannot afford patents in the multitude of offshore locations where manufacturing is possible, even if such patents could be practically enforced. Although the U.S. Process Patent Act has provided some measure of extraterritorial application of U.S. patent rights in the case where the ultimate products are imported into the U.S., many types of process technology are not effectively protected, e.g., processes for making intermediate products that are materially changed before being imported into the U.S.

Thus, competition is fostered not domestically but in foreign countries, building up foreign economies while weakening domestic progress.

OVERRULING METALLIZING ENGINEERING?

Overruling Learned Hand's doctrine will not do the trick, and indeed may be too radical a solution at this time. Under this scenario, even if a prior secret commercial user of a process were not to be held *barred* by his own use, nevertheless under 35 USC § 102(g) the domestic prior user who has suppressed or concealed his invention would have difficulty establishing priority under the first inventor system. Consequently, just eliminating this jurisprudential rule does not provide a complete solution.

We therefore should not address the *Metallizing Engineering Doctrine* today. Instead, the legislation that has been proposed in the form of H.R. 223S will provide a practical and fair solution. Under the proposed legislation, the commercial user of secret process technology will be able to rest assured that, with records of proof of prior commercialization, he need not fear a second inventor, domestic or foreign, gaining a patent on the same process based upon subsequent independent development.

The doctrine also is fairer to and more economical for domestic industry. A competitor who gains a patent on the technology will be able to exclude others *except for the domestic commercial prior user*. The safeguards built into this legislation make it fair to all affected parties. While there is inherently some tension with the prevailing doctrine favoring disclosure of new technological developments, the Supreme Court in its decision in *Kewanee Oil v. Bicron Corp.*, 416 U.S. 470 (1976), has validated the continuing legitimacy of trade secrets as a form of intellectual property. U.S. industry spends a lot of unnecessary money filing, procuring and maintaining "defensive patents" which merely protect it from being later confronted by third party patents covering myriad minor process improvements. This money spent on defensive patents could be better spent on new technology, and the current legislation makes this possible, by permitting U.S. companies to simply maintain their minor improvements as trade secrets and rely on the prior user right.

BENEFIT TO THE PATENT SYSTEM AND THE PATENT AND TRADEMARK OFFICE

Prior art in the form of granted patents is generally classified along lines of products and not processes. This makes the task of locating all of the relevant prior art more difficult, whether in the context of drafting the process invention or examination by the PTO. As a likely side benefit to the system, process patent applications would be decreased by the current legislation, all to the greater good of the American patent system. Examiners will then be able to focus their efforts on the more important product patent inventions and focus more on quality.

DOMESTIC PARITY FOR AMERICAN INDUSTRY

One of the key weaknesses of our patent system has been a neglect in considering what's best for American industry. Here, the current legislation would favor only those who have *domestically* developed technology. (This would be open to the foreign inventor who builds a plant in the United States, which is also to the greater good of the American economy—transferring plants to the United States means more jobs.)

Mr. Chairman, I congratulate you for this very progressive, pro-competitive legislation, that creates a win-win situation for American industry.

Mr. MOORHEAD. Thank you very much.

Mr. Jorda, in your opinion, does this bill strike an adequate balance between the rights of the patentee, the rights of the original inventor or prior user and the public interest? How does it do that?

Mr. Jorda.

Mr. JORDA. Yes, yes, I do. I do, especially since any given inventor, any given small company, any given big company or university can one day be on one side of the fence and another day on the other side of the fence, in one case being first inventor, in the other case being second inventor. And so it is fair to settle this open and unsettled matter and avoiding the dilemmas that now exist where a patent may be held invalid over the prior use of a first inventor or where, and that's a theoretical possibility because it has never happened, where the first bona fide inventor who has invested substantial sums in commercializing the invention may be stopped by a later patentee.

Mr. MOORHEAD. One question we have is, should this legislation be prospective or should it apply to already issued or pending patents? I ask you both to give an answer to that.

Mr. SCHWAAB. I think that it would be quite workable for this legislation to be applied prospectively in the sense that it would not affect any enforcement proceedings which are currently in progress, but that like many of the other changes that have been made recently in our intellectual property law, that it would affect and apply to all controversies arising in the future, whether those pertain to already issued patents or those only to be obtained in the future.

Mr. MOORHEAD. Mr. Jorda.

Mr. JORDA. I hold no opinion, no strong opinion, on whether it should be prospective or retroactive. I would prefer, in view of my basic position—I would hope it could be retroactive, but in view of the fact that we do have a sort of *de facto* prior user rights system, I could go along easily with a prospective piece of legislation.

Mr. MOORHEAD. If prior user is really the first to invent a product or process, then it makes sense to entitle him to protection under our first-to-invent system. Why does it make sense to grant protection to a prior user who is not the first to invent a product? Either one of you?

Mr. SCHWAAB. That's a very complex question. I think in most instances a prior domestic user would in fact be an earlier inventor in any case than the person who ultimately received the patent covering that subject matter against whom this prior user's right would be applicable. I also think that we're looking at this prospectively in the sense that the United States is very seriously considering the possibility of going to a first-to-file system in view of the harmonization process taking place. So I think that's not a serious

impediment, that it is theoretically possible that a person enjoying a first user right may himself or herself not actually be the theoretical first inventor. I think that's not a practical situation that we should be concerned about.

Mr. MOORHEAD. My time has expired. The gentleman from Pennsylvania.

Mr. GEKAS. Yes, I thank the Chair.

I would like somebody to—well, Mr. Schwaab I think mentioned it in the latter part of his testimony. Are we saying that in actuality many patents are sought and obtained even though prior use has already occurred for a product and, therefore, a trade secret cloak has been placed over the product? Nevertheless, an inventor seeks a patent so that he prevents competition from a third one or preempts a third or fourth one? Does that happen quite often?

Mr. SCHWAAB. It happens very often that a company has developed subject matter which is, subject matter which could be protected by trade secrets rights. It would be a secret process, for example, that could not be reverse-engineered by looking at the product. And the company must then decide, do I take the risk of relying on my trade secret protection

Mr. GEKAS. Before you get a patent?

Mr. SCHWAAB. Yes. Or should I get a patent for this—

Mr. GEKAS. I understand that.

Mr. SCHWAAB [continuing]. Simply to protect myself against some other party later getting a patent.

Mr. GEKAS. I understand that perfectly. What I'm talking about is the company embarks on a trade secret, commercializes it as a prior use, and then "X" comes in to get a patent to defend against others that may come down the line with a modification perhaps of the product that was under prior use. Does that happen often? I understand that the same prior user gets a patent to defend, but are there cases where somebody else comes in to defend even though he cannot show a case against the first one to prevent others coming into the field or is that too far down the line?

Mr. SCHWAAB. No, I don't think that's too far down the line. As we know, in today's competitive world, it is not uncommon for several companies to develop technology in close relationship chronologically to one another. So your hypothetical is, indeed, something probably that does happen from time to time.

Mr. GEKAS. And does this legislation help that, help balance that situation?

Mr. SCHWAAB. This legislation would assist anyone who qualifies as a prior domestic user against any patent rights that might subsequently be granted covering that subject matter. So on an individual basis, yes, this legislation helps.

Mr. GEKAS. Even though we still don't have an anthology of cases where somebody has been wronged or, how shall I say, bankrupted or any adverse reaction at all? We don't have any cases; we're still talking in theory mostly.

Mr. SCHWAAB. My own personal view on that is that the strong incentive we have to file patent applications is mainly responsible for the dearth of reported precedent in this area. In other words, companies are feeling very strongly constrained to file those applications and—

Mr. GEKAS. So we would save them time, money, and we'd have a smoother process all along?

Mr. SCHWAAB. And we would benefit domestic industry in the sense that we stop giving away so much valuable technical information to third parties who immediately gain access to this upon the grant of the U.S. patent, or today, and perhaps in the future, we are looking at more and more patent applications published at 18 months before any protective rights are granted at all. So this information now becomes disseminated very rapidly around the world and it allows competitors to jump into the marketplace and take advantage of it.

Mr. GEKAS. At the very least we'd have less government paperwork.

[Laughter.]

Mr. GEKAS. And that's less government and that's in keeping with the Contract With America.

Mr. Chairman, I have no further questions.

Mr. MOORHEAD. Thank you very much.

Our first witness on the third panel is Mr. Gary Griswold, representing the Intellectual Property Owners, Inc. Mr. Griswold is the chief intellectual property counsel of the Minnesota Mining & Manufacturing Co., better known as 3M. He holds a bachelor's degree in chemical engineering from Iowa State University, a master's degree in industrial administration from Purdue University and a law degree from the University of Maryland. He has practiced intellectual property law for 20 years. He also served as a member of the Secretary of Commerce's Advisory Commission on Patent Law in 1991 and 1992.

Welcome, Mr. Griswold.

Our second witness on the third panel is Mr. Robert A. Armitage, president of the American Intellectual Property Law Association or AIPLA. Mr. Armitage is a partner in the law firm of Vinson & Elkins. He formerly served as chief intellectual property counsel of Upjohn Co. He is a member of the advisory board of the Patent and Trademark Copyright Journal for the Bureau of National Affairs, Inc., and has lectured and written on a wide range of intellectual property subjects.

Welcome, Mr. Armitage.

Is your brother the former president of the Bank of America? No?

Our third witness is Mr. William D. Budinger, chairman and chief executive officer of Rodel, Inc. Rodel is the manufacturer of products used by the semiconductor industry, the manufacture of integrated circuits. Mr. Budinger is an inventor and the owner of more than three dozen patents. He's a founding board member of the Delaware Innovation Fund and serves as a member of the White House Conference on Small Business.

Welcome, Mr. Budinger.

We have all of your written statements. I ask unanimous consent that they be made a part of the hearing record and I ask that you summarize your statements in 10 minutes or less. I ask that the members of the subcommittee hold their questions until after all of the witnesses have had an opportunity to testify, starting out with Mr. Griswold.

**STATEMENT OF GARY L. GRISWOLD, PRESIDENT,
INTELLECTUAL PROPERTY OWNERS**

Mr. GRISWOLD. Thank you, Mr. Chairman.

As you mentioned, I'm president of IPO. IPO is an organization that has as members large and small companies, universities and individuals. Our organization represents owners of 27 percent of the patents granted by the United States to U.S. nationals. Since 1972, IPO has been working for strong and forceful intellectual property rights to better our technology development. I'm also chief intellectual property counsel at 3M, and last week 3M was honored by being presented the President's Medal of Technology for its long history of innovation. We've spent more than a billion dollars in 1994 on R&D and we've received a lot of patents. In fact, we received 540 U.S. patents in 1994.

Now getting to this bill, IPO strongly supports 2235. We think it's a nice balance between invalidity of a patent or an injunction against the prior user. Let me explain that. The law is unclear today as to what will happen when this case that we were talking about earlier, this hypothetical case occurs. It could be, under 35 U.S.C. 102(g), that the patent would be held invalid. Or, it could be, that the prior user would be enjoined. The nice thing about H.R. 2235 is that it resolves this issue by letting the patent stay and continue against subsequent users, but also allows the prior user to continue, and to receive a return on the investment it has made in developing the technology that evolved into the prior use. So it's a good resolution of a tough issue. That's why we support it.

Now there are a number of reasons why persons do not file patent applications on all process inventions, for example, but instead keep them as trade secrets. One reason is if that you cannot determine from the final product what process is being used, you cannot police the product or the patent. Another point, which was made earlier, is the cost of patent coverage is very high, and I don't think we want our people spending money on patent coverage when they don't need to. Another issue is whether to cover every improvement or nuance on every process; we don't believe that's appropriate.

One of the points that was made earlier is that if we drive our trade secret users to the patent system and they obtain patents and provide disclosures on trade secret processes that then become public, these are available to be used by others, both within the United States and outside the United States, and the patents would be very difficult to police. In fact, we are then turning that technology over to our competitors and reducing the opportunity for manufacture in the United States.

So, the bottom line on this bill is that it encourages domestic manufacturing and jobs by providing our prior users in the United States an opportunity to continue their use. Other countries, representing 85 percent of the gross domestic product outside the United States, have prior user rights and protect their industry. We need this kind of legislation to balance the playing field between ourselves and other countries like Japan that have a prior user right.

If an American company owns a patent in Japan, a prior user in Japan can continue; if the reverse occurs, where there's a Japa-

nese-owned patent in the United States, the U.S. prior user could possibly be enjoined. And that's not just a remote possibility, about 45 percent of U.S. patents are granted to people from outside the United States.

Now the bill contains a number of provisions and limitations that make it very fair to both parties. I won't go into all the detail on that. One question which was asked earlier was whether or not, indeed, this would impact the location of a plant. In fact, it will. When companies look at where they're going to locate manufacturing facilities around the world, many factors are considered, and some of those have been mentioned, like taxes and other things. But another one is whether or not there is a prior user right in that country that would allow you to continue to use that process in the event a patent does issue later.

So, in conclusion, we think that this bill represents a nice resolution of the winner-take-all options and provides a win-win situation for both the prior user and the later patentee. This concludes my comments.

[The prepared statement of Mr. Griswold follows:]

PREPARED STATEMENT OF GARY L. GRISWOLD, PRESIDENT, INTELLECTUAL PROPERTY OWNERS

Mr. Chairman and Members of the Subcommittee, my name is Gary L. Griswold. I appreciate the opportunity to testify on behalf of Intellectual Property Owners (IPO). I am Chief Intellectual Property Counsel at 3M Company in St. Paul, Minnesota and the current president of IPO. IPO is a non-profit association that represents companies, universities, and individuals who own patents, trademarks, copyrights, and trade secrets. IPO members received 27 percent of the U.S.-origin patents that were granted by the U.S. Patent and Trademark Office in 1994.

PRIOR COMMERCIAL USE RIGHTS IN GENERAL

IPO strongly supports H.R. 2235, the Prior Domestic Commercial Use Act of 1995.

We believe H.R. 2235 is important legislation that will materially improve the functioning of United States patent and trade secret laws. The bill strikes a balance between the rights of patent owners and the rights of prior domestic commercial users of patented inventions, who include trade secret owners. By clarifying the rights of parties who commercially use a patented invention in the United States prior to the patent application filing date, often called simply "prior users," the bill if enacted will provide greatly needed certainty about rights in technology and reduce the expense of protecting intellectual property.

In essence, H.R. 2235 provides that a U.S. manufacturer will not be liable for infringement of a patent owned by another party if the manufacturer commercially uses the patented invention, or in certain cases makes effective and serious preparation to use it, before the other party files for a patent. It is not clear that existing law is different from this. Neither does existing law make clear the circumstances in which prior commercial use will invalidate the patent.

Clarification of the right of a prior commercial user to continue using has been needed for years, but we know of no case that deals squarely with the issue. Globalization of the economy and the high cost of patent litigation have added urgency to the need for clarification. The statutory right in H.R. 2235 to continue to use technology in the face of later-filed patent applications is the best solution; it provides an alternative to injunctive rights for the patent owner or invalidation of the patent.

PROTECTING TRADE SECRET OWNERS

H.R. 2235 is a carefully crafted bill that protects the interests of patent owners and trade secret owners. Under current law, prior users of trade secrets and other technology that, by its nature, is practiced away from the public's view cannot be confident that another party will not patent the technology and sue them for patent infringement. Sometimes people have a knee jerk response that protecting prior users of trade secrets will exalt secrecy over the public disclosure of inventions that

is encouraged by the patent system, and that the bargain theory of the patent right will be frustrated.

We believe secret use of technology cannot be dismissed as *necessarily* less beneficial to society than publicly disclosed use. Many important technological achievements—notably processes—can be effectively exploited only through secret use. Processes naturally are practiced away from the public's view in most cases. Patents covering them consequently are very difficult to enforce, so process patents often do not provide meaningful protection.

The Supreme Court of the United States in its landmark 1974 opinion in *Kewanee Oil Co.* articulated how patent law and trade secret law both encourage innovation. Patent law, the court explained, promotes innovation by offering a right to exclude competitors for a limited period of time and inducing public disclosure of patented inventions. The court recognized, however, that trade secret protection for inventions that could have been patented does not conflict with the patent policy of public disclosure of technology. The court said:

Trade secret law and patent law have co-existed in this country for over 100 years. Each has its particular role to play, and the operation of one does not take away from the need of the other. . . .

A U.S. manufacturer should not be expected to disclose its proprietary processes to the world, including foreign competitors, through the vehicle of hard-to-enforce patents in order to assure the continued right to use them in this country. H.R. 2235 obviates the need for a manufacturer to incur the expense of patenting every minor improvement or publishing a disclosure of every minor improvement in order to defeat the right of others to obtain a patent.

In addition to processes, there is a need to protect other innovations that require a significant investment to be made during the period that the invention is under development and before public use assures its protection against subsequent inventors. H.R. 2235 accomplishes this in a fair way by protecting effective and serious preparation for use, when there is a significant investment and a commercial transaction before the patent filing date, provided the investor diligently works toward commercial use after the patent filing date.

If H.R. 2235 is enacted, the incentive to patent substantial, protectible inventions will be unchanged. Inventors may not feel compelled to file as many patent applications on minor inventions, such as improvements made during routine product development, as they would if a prior user right were not assured. On the other hand, the incentive to obtain patent protection where it can be effectively exploited by the rights to exclude others or to reap royalties will continue to far outweigh the incentive to maintain secrecy. Trade secret protection does not prevent other parties from independently creating an invention and using it in the United States. Moreover, a prior user right in the United States will not insulate a trade secret owner who does not seek patents from being excluded from foreign markets by foreign patents filed later by other parties.

PRIOR USER RIGHTS ABROAD

Prior user rights provisions are common in foreign patent systems. The countries that have them account for 85 percent of the total gross domestic product of countries other than the U.S.

A study of 46 countries by the World Intellectual Property Organization in Geneva in 1988 revealed that the vast majority have a right in their patent laws to use a patented invention based on possession, use, or preparation for use before the filing date or priority date. In certain countries—for example, Belgium and France—prior user rights are too broad because a prior user right is recognized for a party who merely possesses knowledge of the invention earlier than the patent filing date. Such over broad prior user rights need to be reined in through international negotiations because they diminish the value of exclusive patent rights.

In the patent laws of most of our major trading partners, however, the prior user rights are similar to or only slightly broader than those proposed in H.R. 2235, and those systems work well. Litigation involving enforcement of prior user rights is rare in foreign countries, and such litigation will not become significant in the United States. Consistent with the approach used in other countries, H.R. 2235, as noted, limits the rights to those parties who have commercially used or made effective and serious preparation for commercial use in this country. Foreign countries base their prior user rights on the earlier of the domestic patent application filing date or Paris Convention priority date, as does H.R. 2235. Other countries do not give patent owners compensation for use of patents by prior users, who in many

cases are the first inventor and have advanced the public interest by manufacturing. H.R. 2235 is correct in adopting that policy too.

Foreign countries give firms that manufacture in their countries the advantage of a prior user right. H.R. 2235 levels the international playing field with respect to patent rights by giving that right to firms that manufacture in the U.S. Today, the absence of a prior domestic commercial use right in U.S. law gives an incentive for manufacturers to locate plants in other countries.

PROVISIONS IN H.R. 2235

The definitions and the qualifications on prior user rights proposed in H.R. 2235 are satisfactory to IPO.

For example, the terms "commercially used," "commercially use," and "commercial use" are defined to include use in the United States in commerce or the use in the design, testing, or production in the United States of a product or service which is used in commerce. This encompasses the use of processes, equipment, tooling, and intermediate materials in the design, testing, or production of commercial products or services. The definition makes clear that commercial use includes use that is maintained as a trade secret.

"Effective and serious preparation" should involve reduction to practice of the invention plus serious plans for, and a significant investment in, commercial use. Preparations for commercial use that are substantial and material should give rise to prior user rights, provided they represent activity toward actual commercialization as opposed to mere plans or preliminary efforts toward subsequent activity. The criteria in H.R. 2235 for determining whether effective and serious preparation for use exists are similar to those recommended by the 1992 Advisory Commission on Patent Law Reform, on which I had the opportunity to serve. Under H.R. 2235, there is serious and effective preparation if:

(A) before the filing date, the person (i) reduced the subject matter to practice, (ii) completed a significant portion of the total investment, and (iii) made a commercial transaction; and

(B) after the filing date, the person (i) diligently completed the remaining activities necessary to commercially use, and (ii) promptly began commercial use.

The bill provides that improvements on an invention that had been used prior to the patent owner's effective filing date do not infringe the patent if they do not infringe additional specifically claimed subject matter.

The prior user is able to expand the prior use to meet market demands, rather than being restricted to the pre-filing volume of use. Prior users should not be restricted to a particular geographical area within the borders of the United States, as entities commonly conduct development and commercialization activities in different sites throughout the United States.

The bill lists several desirable qualifications on rights based on prior use:

(1) a person asserting prior user rights has the burden of establishing the defense, which means that the person asserting the rights must present reasonably persuasive evidence in the form of corroborated production records, formula books, shipping records, invoices, advertising records, or the like.

(2) prior user rights are personal and cannot be transferred except in connection with transfer of the entire business or enterprise to which the rights relate;

(3) prior user rights are not available if the prior use was based on information derived from the patent owner or parties in privy with the patent owner, or the prior user's activity was abandoned;

(4) prior user rights do not cover all claimed subject matter of the patent, but only that claimed subject matter that was commercially used or for which there was serious and effective preparation in the United States before the filing date;

(5) prior user rights cannot be asserted unless the subject matter was commercially used or reduced to practice more than one year before the patent filing date.

These limitations are needed to prevent abuses of the prior user right that would improperly diminish the value of the patent against which the right might be asserted. The purpose of limitation (5) is to allow patent owners to experiment with or market their inventions without risk during the patent law's one year grace period.

We understand the prior user rights of H.R. 2235 to be legal rather than equitable rights. The prior user right would be an absolute defense to infringement once the

elements of the right were proven by a sufficient showing of prior use. A legal prior user right is important in the interest of clarifying the metes and bounds of the right.

CONCLUSION

H.R. 2235 will benefit large and small U.S. manufacturing concerns. Today businesses large and small are finding that the cost is prohibitive to protect all inventions, including minor improvements, with worldwide patents. Particularly in the case of process inventions, for which trade secret protection is a practical and often the best alternative, an assured prior user right will improve the climate for innovation by allowing a domestic commercial trade secret user to recoup investments in research, development, and commercialization.

Since prior user rights in H.R. 2235 are only for prior users whose use is within the U.S., H.R. 2235 will give U.S. manufacturers an important advantage in the U.S. market over foreign competitors, who obtain 45 percent of the patents granted in the U.S.

Experience abroad suggests that prior user conflicts rarely occur, so most patent owners will not encounter them. That does not mean that prior user rights are unimportant to manufacturers. It is the possibility—not the frequency—of a complete prohibition of continued use, that pushes U.S. manufacturers toward unnecessary patenting or disadvantageous publishing of manufacturing technology.

The business community cannot afford to wait for clarification of the rights of prior trade secret users through case by case judicial interpretation of the existing patent code, an uncertain prospect. The competitive pressures on U.S. businesses are such that Congress should enact H.R. 2235 at the earliest possible date.

H.R. 2235 is a carefully thought out bill that balances patent rights and prior user rights in a way that will strengthen the technological competitiveness of U.S. industry.

I will be pleased to answer any questions.

Mr. MOORHEAD. Thank you. You know it's always tough when this happens. We've got a 15-minute vote, of which there's about 8 minutes left, and it's going to be followed by several 5-minute votes I understand. So, there has to be a little recess while Mr. Gekas and I go for a vote, and we'll get back as fast as we can.

[Recess.]

Mr. MOORHEAD. The meeting will come to order.

I think our next witness was going to be Mr. Armitage. I don't see him. Do you want to go, Mr. Budinger?

STATEMENT OF WILLIAM D. BUDINGER, CHAIRMAN AND CEO, RODEL, INC., NEWARK, DE

Mr. BUDINGER. Good morning, Mr. Chairman. My name is Bill Budinger and, aside from having been lost in Liechtenstein once myself, I think a lot of what I had planned to say this morning has already been said. Rather than repeat that, what I'd like to do, and I'd hoped that Mr. Gekas would be here to tell the story of my experience. It is in fact an answer to his question about "Does this ever happen in real life?" The answer to that question is yes.

To talk about that, I need to give a short background on my company. My company was started 26 years ago by me as an inventor because I couldn't license my patents. I tried to do that first and I didn't have any luck. So out of desperation, I had to start a company to make the thing. Along the line, we began to manufacture materials for the electronics industry.

In the 1980's something happened to our market. Almost every customer we had in the 1980's either went bankrupt, moved offshore, or got bought out by a foreign company. Even the division of IBM that we used to sell to got sold to a German company. So by the end of the eighties, our business had completely turned up-

side down; whereas in 1979, 90 percent of our business was to American companies, by the end of the decade it had flipped the other way around. We were selling almost exclusively to foreign-owned companies, some on American soil.

Our technology is important to the manufacture of chips and, especially as the chip industry moved to Asia, our technology became very interesting to our Asian competitors. What we found happening was that we would see U.S. counterpart patents issue on our technology. Now what we think, and could never prove, is that our foreign competitors bought our products, and took them home. They couldn't patent our products because those are out on the public market, but they could patent how we made them, the process by which we manufactured them because we didn't publish that. That was secret.

When we saw these patents come through, the U.S. counterparts, we were amused; here were some brandnew patents that hadn't been filed all that long ago on processes that we'd been using for 20 years. We didn't think we had to worry. In a conversation subsequently with our patent counsel, I just kind of mentioned these as a joke. He said, "Bill, that's not a joke. You've got to let me look at them."

They did a study and came back and said, "You've got a problem." Frankly, we thought maybe we better get a second opinion. So we went out to another patent counsel and he came back and said the same thing, "you have a problem, under American law there is no protection for you if these people try to enforce their patents. They can shut you down."

I found that astonishing, hard to believe. That began a process where I became extremely interested in prior user rights. It's true, there hasn't been a court case on this issue but it was like an ax hanging over our head. There are now almost half a dozen patents that we can identify, even for our relatively small company in that category.

So, the ability to have a prior use or prior user right, the ability to be sure that we can keep doing what we have been doing is extraordinarily important to us. Even now that we've been educated, if a prior user rights bill is not enacted, we still have a tremendous body of technology that we cannot patent because it's too old for us. Somebody else can look in our window and patent it, but we can't because we've been using it in a commercial way for more than a year.

The prior use bill is a protection for things about which we have no other protection, no other remedy in all this huge body of law. What I've come to learn is that this applies to American industry in general. The bill that's before us today has been excellently described and explained in detail, and one of the things that I like about it as an inventor is that it gives both the inventor—the original inventor or user—something and it gives the subsequent patentee something. It recognizes that each party has made a contribution to the public, the first user by bringing the commercial product out, and the subsequent patentee by disclosing it.

Under this bill the courts no longer have the winner-take-all dilemma in front of them. They now have a way that they can honor

each party's contribution. We are delighted to see this bill and hope it will pass. Thank you.

[The prepared statement of Mr. Budinger follows:]

PREPARED STATEMENT OF WILLIAM D. BUDINGER, CHAIRMAN AND CEO, RODEL, INC., NEWARK, DE

Mr. Chairman and Members of the Subcommittee, my name is Bill Budinger. I am both an inventor and the founder of a successful manufacturing company. As an inventor I hold several dozen patents in the U.S. and overseas. I derive significant income from licensing some of those patents. I am very interested in maintaining a strong patent system and strong patents.

In testimony last year on a similar bill, I explained that my company, Rodel, got its start in my bathtub 25 years ago in an effort to make one of those inventions. The company grew by its own resources; today we sell our American-made products all over the world. Our primary products are polishing pads and slurries that are used by the electronics industry in the manufacture of micro-chips, LCD screens, and memory storage devices.

I am here today partly as a result of our effort to supply our markets as they moved overseas. In 1979, 90% of our customers were American. In the 1980's, most of our customers went bankrupt, got bought out, or moved offshore. Survival for us meant becoming global and learning how to compete with firms like Dai Ichi, Fujibo, Fujimi, Marubeni and Mitsubishi. It meant learning how to make products with quality that was better than the best in Asia. It meant trying to persuade a foreign customer to buy American—while our foreign competitors waited in his lobby. My company still exists because we were successful. Today, the majority of our business is supplying our American-made products to foreign owned customers. We have a huge export surplus. In fact, I am pleased to report that our products are preferred in Asia over locally made products—so much so that in our specialty we sell more in Asia than all of our Asian competitors combined. It is not possible to buy an electronic product made anywhere in the world that was not made with at least one of our products. And most of all, I am pleased to say that all this was done strictly on American ingenuity without any government help.

The issue that brings me here today is concern about the vulnerability of our company and many other emerging American enterprises in the intellectual property area.

Partly because of our success in Asia, our Asian competitors have shown a keen interest in our technology. Two years ago we were astonished to learn that it was possible for them to get a U.S. patent on part of our manufacturing process and then stop us from making what we had been making for years.

Here is one example of what happened:

For years our company has been manufacturing one of its principal products by using a process involving heat. When we first began making the product almost 20 years ago, it did not occur to us that something as simple as a particular heating process might be patentable. A few years ago, a foreign competitor filed a patent in their own country claiming the heating process used to manufacture a product just like ours. They then filed for and received a U.S. counterpart patent. We now find ourselves facing a new U.S. patent on a process that we developed 20 years ago and have been using ever since to make products in our plant. The foreign company that holds the new patent is a huge corporation. It dwarfs our small enterprise. If they choose to enforce their patent, they have the financial horsepower to overwhelm us.

Our attorneys tell us that under existing U.S. law, the holder of a valid patent on our process might well be able to stop our production. The reason that our previous commercial use of the heating process may not be a defense against the patent is that our process was not publicly known. In the case of publicly known technology, the law is very clear: if the process was used and known publicly more than a year before the application date of the patent, the use constitutes a bar and the patent will be found invalid. In the case of non public use, however, the law is silent. The validity of the patent and the right to continue the use are both uncertain. That uncertainty may generate some large legal fees, but it is a killer for business—especially small business. Small businesses cannot afford the huge costs of resolving an issue in equity. Ambiguity in the law hands the advantage to the deepest pocket. Victory often depends more on finances than merit. Small businesses need to know what the rules of the game are.

In my company, we have found that we are early encountering this problem; most small U.S. firms do not yet compete globally and are not yet aware of it. As was

our case, most U.S. inventors mistakenly believe that if they were first or have been using technology for more than a year, it cannot be successfully patented by another. Most of us are not aware that our use of technology is not necessarily a bar to some one else coming along much later and getting a patent on it. Our jeopardy and the jeopardy of many others is in the myriad of small inventive innovations that go to make up our production processes. Because these processes are not public, they are vulnerable not just to being reverse engineered and copied (which seems like a fair risk), but to expropriation (which seems grossly unfair).

Some people who are not directly involved in manufacturing have suggested that the solution to our problem is to get patents on all our technology. I'd like to address that point for a moment. There are two serious problems with that solution: cost and practicality.

First cost. Patents are expensive and their prosecution takes precious time away from management or new innovation. Inventors and small companies generally try to patent only those inventions that they intend to sell on the open market. The hundreds or thousands of little innovations that are incorporated in their tooling, processing, or intermediate materials are rarely patented. If small companies were required to patent everything they intend to continue using, they would have to submit every piece of their technology for review by patent attorneys. Such reviews (and the resulting defensive patents) would be prohibitively expensive. And the cost is not just for U.S. patents. The growing reach of global competition means we cannot ignore our foreign competitors. Since everyone is free to read U.S. patents, they gain immediate access to our technology. If we are required to defensively patent all our processes, the only way we can avoid giving a free technology lesson to our competitors is to patent globally. We must file counterpart patents all over the world. The burden is huge. The cost of obtaining full European patent coverage for just one invention is over \$100,000 in application and maintenance fees alone. That doesn't include Asia, it doesn't include the costs of translation or legal fees, and it doesn't include any of the costs of enforcement. In the real world, defensive patenting is just not a financially viable option for U.S. companies operating in a global marketplace.

The second problem with defensive patenting is practicality. Most manufacturers, especially small manufacturers, do not, and indeed cannot, patent all their technology. The vast majority of inventive innovations do not get patented. Most factories, especially our high tech industries, are a monument to Yankee ingenuity. Our factories contain thousands of inventive innovations. Even if global patents were free, it would be a prohibitive administrative job trying to patent everything that might possibly be patentable. Then too, U.S. patent law prevents us from patenting any process or software whose commercial use is more than a year old. This prohibition does not affect anyone who was not privy to the use. Thus most of America's existing confidential technology cannot be patented by its users but it can be patented by outsiders.

The irony is that none of our major foreign competitors operate under the disadvantage I have just described. To protect their technology, our foreign competitors need only keep it confidential. Their laws assure them the right of continued use even if someone later comes along and gets a patent. They do so by means of a right of prior use. Under a prior user right, if a patent issues and someone else can prove that he has been using the technology since before the priority date, the law allows continuation of that prior use. If the prior use was non-public, the patent is not invalidated. Thus both parties, the patentee and the prior user, end up with something of value.

Some people have been concerned that adoption of a prior user right would be tantamount to granting a royalty free license to infringers and thus would lower the value of patents. Indeed, a number of scare stories have circulated among independent inventors—stories that if true would make me a strong opponent of this bill. Here is a typical story from the March/April, 1995, issue of *Inventor's Digest*:

Prior user rights means a free license to an inventor's technology. Anyone using an invention before a patent issues would have the right to continue to use that invention after the patent issues and would not have to pay the inventor one thin dime! The "rights" would belong to the prior user . . . and the "rights" of the inventor would be in the toilet!

This article assumes that only the patent holder is an inventor; it ignores the rights of inventors, even first inventors, who did not get a patent. It ignores the threat to the patentee that the prior use will render his patent invalid under 102 or 103. It is also very wrong in its analysis of dates and the requirements for "use." The conclusion it draws could not be drawn if the facts were presented accurately.

While such stories explain the terrified reaction of some to the phrase "prior user rights," they do not reflect an understanding of this bill. This bill, H.R. 2235, has been crafted by inventors, lawyers, small businesses, large businesses, the government, and universities to carefully and narrowly define the rights of both prior users and patentees when there has been prior use. This bill is *very* different from the bill described in the story. The only patents that can be affected by this bill are those patents which have the misfortune of having been written on technology that was already more than a year old, in use and benefiting the public *before the patent's priority date*.

For a patent confronted with such a non-public prior use situation, H.R. 2235 provides an alternative to invalidation. It also allows a legitimate prior domestic commercial user to continue *provided* some rigorous tests can be met:

- a. The use must be commercial. The public must have benefited from the use before the priority date of the patent. Prior invention, reduction to practice, or even private use do NOT establish grounds for the defense.
- b. In addition to commercial use, the technology or invention must have been reduced to practice more than a year before the patent priority date.
- c. If the use has been abandoned, it cannot be used for the defense.
- d. The source of the user's technology must not have come from the patentee.
- e. The commercial use must have occurred on American soil.
- f. The defense is not a general license under the patent. It applies only to certain subject matter and it is only a defense. The defense is personal, it cannot be transferred to another.
- g. The burden of proof falls entirely on the prior commercial user.
- h. Sanctions are provided to discourage frivolous use of the defense.

Finally, there are people who believe this bill is a bad idea because the American patent system has worked well over the last 200 years and it shouldn't be changed. That might be fine if the world hadn't changed. In the last 10 years, the world has changed dramatically. Even our courts no longer interpret patents the way they did in the past. Our patent laws cannot ignore the changing world.

Attached to my testimony last year were several letters that give important perspective to this bill.

The first letter summarizes the U.K.'s experience. They report that enactment of prior user rights in the U.K. created no adverse effect on their patent system.

The second letter is from the Association of University Technology Managers. AUTM has vigorously opposed prior user rights in the past, and some AUTM members remain opposed. I believe their decision not to actively oppose this bill is based upon the bill's balance and the obvious need.

The third letter is from Dr. Robert Gore, president of W.L. Gore & Associates. In addition to his renowned innovative management techniques, Dr. Gore is a great inventor. Among his main contributions to American technology is the product known as Goretex. Dr. Gore's support of prior user rights is significant because he was the patentee and plaintiff in the often quoted *Gore v. Garlock* case. The unsuccessful defense against Gore's suit was partly based on a claim of 3rd party prior use.

The final letter is from Lanxide Corp. Lanxide is a small company primarily devoted to research, development and licensing. Lanxide holds over 3000 world-wide patents. Their future depends on the strength of those patents. Lanxide's letter explains why a good prior user rights law is important to those who rely heavily on patents to protect their research investment.

In summary, H.R. 2235 is a bill that balances the equities. It is based on the principle that because the commercial use predicated the patent application, and because it benefited the public, it should be allowed to continue. But because the use was unpublished, it should confer only a limited personal right of continued use, and not the broader effect of invalidating the patent.

Passing this bill will clarify our law and remove an advantage now held by our foreign competitors.

Thank you.

CONFIRMATION COPY

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NNN/jt

MAR 11 1203 MAY 1994

Mr. Bill Budinger
 c/o Rodel
 451 Bellevue
 Newark
 DE 19713
 USA

BY FACSIMILE
 TO: 010 1 302-366 0187
 ONE PAGE

confirmation by airmail

Dear Bill

PRIOR USER RIGHTS

You asked me about patent legislation in the UK on prior user rights in relation to granted patents.

In the UK before the Patents Act 1977 evidence of any prior use, whether public or secret, was a ground of invalidity of a patent. Thus if it was proved that there was a prior use of any kind a subsequent patent would be invalid and therefore could not be used to prevent continuation of the existing use. The 1977 Act limited the grounds of invalidity of a patent to lack of inventiveness over the prior art. Prior art is statutorily defined as any matter which was made available to the public. While this definition includes public use it does not include secret use. Thus evidence of secret use is no longer available to invalidate a patent.

It was considered to be inequitable that the patent system should be able to be used to stop tomorrow what someone had been legitimately doing today. A prior user right was therefore included in the 1977 Act which gives to any person, who before the priority date of a patent, does in good faith an infringing act, or in good faith makes effective and serious preparation to do an infringing act, the right to continue with that infringing act. This right is not licensable or separately assignable. It is transmittable only with the business. The burden of proof in establishing a prior user right is on the person who asserts that he has that right. The effect of this additional feature on the patent system has not been of any significance.

I trust the above is sufficient for your purposes.

Your sincerely

N.N. Davis

N.N. DAVIS
Director of Patent Services

cc: BTG, USA for Madhuri Malkani



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June 20, 1994

TO: All AUTM Members
FROM: William Hostetler, AUTM President
RE: PRIOR USER RIGHTS

As you may be aware, efforts are underway to introduce Federal Prior User Rights legislation. In order to keep you updated on the progress of this issue, enclosed you will find a memo, "The Threat to Small American Manufacturers," from W.D. Budinger at Rodel, Inc., a copy of the Proposed Prior User Rights Bill as it currently exists, and a copy of a section-by-section analysis of the bill.

The stand being taken by the AUTM Board is as follows: While we would rather not have any form of Prior User Rights or only a limited form that has to be claimed within some reasonable time after a patent issues, we are convinced that Mr. Budinger's proposed legislation is about as limited a form of Prior User Rights as we are ever going to see. Thus, we feel we should either give Mr. Budinger's bill our qualified support or at least indicate that we won't actively oppose it - at least as long as it remains as drafted. Hopefully passage of the Budinger bill will forestall the introduction of a broader form of Prior User Rights of the sort that some of the larger industrial corporations have been pushing.

Members of the AUTM Board have worked with Mr. Budinger to narrow the bill as much as possible and he has tried very hard to meet our concerns because he wants university support. He has a commitment from DiConcini's staff that, if the bill becomes controversial and gets changed, they will see that it is withdrawn from consideration.

The AUTM Board feels that it would be a waste of our efforts to actively oppose this bill but the Board will make clear that any broader form of Prior User Rights would result in our strong opposition.

This is AUTM's position on this issue. AUTM Members should feel free to express their individual opinions to their Washington representatives and to the AUTM Board. We would appreciate it if you would forward copies of any letters you write to Penny Dalziel at the AUTM Headquarters.

PD:hs
Enclosures



W. L. GORE & ASSOCIATES, INC.

555 PAPER MILL ROAD • P.O. BOX 9329 • NEWARK, DELAWARE 19714-9329 • PHONE 302/738-4880
FAX: 302/738-7710 • TWX: 510/666-0825 CABLE: GOREASSOC.

17 24 PM '94
April 19, 1994

William D. Budinger, President
Rodel, Inc.
451 Bellevue Avenue
Diamond State Industrial Park
Newark, DE 19713

Dear Bill:

Thank you for sending me copies of the proposed "Prior User Rights Act of 1994" and the legislative history that accompanies it.

I believe that enactment of this legislation will help encourage innovation and technological development in the United States. The bill provides needed protection of the rights of prior developers and users of technology while still protecting the legitimate patent rights of patentees.

If I can be of any help in supporting this measure, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob".

Robert W. Gore
President

RWG/lld

cc: Iain Campbell



LANXIDE CORPORATION
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TLX 905019 LANXIDE

May 17, 1994

Mr. William D. Budinger, President
Rodel, Inc.
451 Bellevue Avenue
Diamond State Industrial Park
Newark, DE 19713

Re: Proposed Prior User Rights Act of 1994

Dear Bill:

We have reviewed your proposed legislation entitled "Prior User Rights Act of 1994" (the "Act") and your discussion and explanation attached thereto. We believe that the proposed Act is logical and provides needed protection to companies like Lanxide.

As you are aware, Lanxide Corporation and its eleven commercial ventures are all based on the creation, protection and commercialization of technology. Lanxide has made extraordinary efforts to protect its technology via the patenting process. Specifically, Lanxide has over 3200 U.S. and Foreign patents or patent applications pending. However, even though Lanxide relies heavily upon the patenting process for the protection of technology, we still feel somewhat exposed absent some type of prior user rights law in the United States.

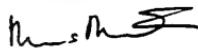
Bill, as you well know, technology never sleeps and yesterday's full disclosure in a patent can be made at least partially obsolete by today's new discoveries. It is virtually impossible to patent every single new discovery that is important in a commercial process. While it is true that we are not fearful that someone could practice our technology because of our extensive patenting, we are concerned that some company having less than noble technology advancement motives could torpedo various aspects of our commercialization activities. In this regard, the possibility exists for another entity to patent specific improvements that we might be practicing. Such an entity could not practice the improvements that we were practicing because of our dominating patent position. However, we could no longer practice what we had been practicing because of the existence of a patent issued to another. This situation is not healthy to commercialization in general or to commercialization of advanced material and other critical technologies, like the technologies of Lanxide.

Mr. William D. Budinger
May 17, 1994
Page 2

In fact, we believe that the need for a prior user rights law is now more important than ever due to increasing worldwide competition, industrial espionage, etc. The absence of an adequate prior user rights law is likely to actually have a chilling effect upon technology development in the United States.

If we can be of any help in supporting your proposed Act, please feel free to contact us.

Cordially,



Marc S. Newkirk
President and Chief
Executive Officer

MSN/kem

cc: Mark Mortenson

Mr. MOORHEAD. Thank you. Mr. Armitage.

**STATEMENT OF ROBERT A. ARMITAGE, PRESIDENT,
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION**

Mr. ARMITAGE. Yes, thank you, Mr. Chairman. I'm here on behalf of the American Intellectual Property Law Association. And let me begin, since so much has already been said about prior user rights, by making just a brief comment on how deeply we appreciate the work of the committee in this Congress, even aside from, I think, a very fine effort on the prior user right bill.

I don't recall a time when there's been so much important and progressive legislation affecting the patent laws that has been before this committee. We are delighted with the Government corporation approach that you are pioneering in this Congress. We appreciate very much what you are doing with H.R. 1733. The proposed changes to the reexamination law we think will be a major improvement there. So we're amazed you find time for all of this, but appreciate the fact that, as with these other pieces of proposed legislation, the subject of prior user rights is receiving this hearing this morning.

AIPLA has been before three Congresses now urging that a prior user right statute be enacted into U.S. law. In the 102d Congress we were here because of the Patent System Harmonization Act, which included a prior user right provision. We were back in the 103d Congress with a different bill pending then, and we believe that, as with those two prior efforts where we supported the legislation, we have again a proposal here that substantially meets our preconditions for supporting any intellectual property legislation.

And let me just say that, in terms of those preconditions, we think there are two things that are of vital importance. We don't come here to support IP legislation, particularly patent legislation, unless we believe that it really does preserve the essential principle behind a patent, and that is a patent provides exclusionary rights to the inventor. We see absolutely nothing inconsistent with adequate and effective patent protection and the provisions in this bill on prior user rights.

Second, for at least the past decade—and why I very much appreciated Mr. Budinger's introduction to the comment I'll make now—for at least the past decade we've been concerned that our intellectual property laws do foster international competitiveness for domestic industries. In 1987 and 1988, we launched a major effort with a blue ribbon committee to say what do we need to do to our patent laws to make them more responsive to the competitive needs of our industry, both here and abroad, and clearly on this principle as well we believe the prior user right is very much consistent with providing people who manufacture in the United States the reasonable protections that they deserve.

The prior user right issue is to some extent a chicken and the egg issue; it's a matter of which should come first. Should it be the personal right of a prior domestic user or should it be the exclusionary right of the patentee? What, to some people at least, makes this issue so difficult is that there are enormous equities on both sides of the equation. As I said earlier, the patent right needs to be an exclusionary right. It's not a right to get some royalties. It's

not just a right for some technologies. It really needs to be an effective right to preserve its constitutional purpose.

On the other hand, what greater equity could there be than someone like Mr. Budinger having put a good deal of his personal financial resources into a business in the good faith belief that there would be no patents that would come later to put him out of that business? What prior user rights do, in our opinion, is take these powerful and reasonable equitable concerns on both sides of the issue and simply reconcile them. They say basically that there's a place in our patent system for a prior domestic commercial user acting in good faith, and there should be a place, notwithstanding that prior domestic commercial user, for a patentee with essentially full exclusionary rights.

We also believe that, if timing is an issue, the time for the prior user right bill is now. If we go back to the 1960's, our patent system was largely dominated by domestic patents. We see an ever-increasing number of foreign patents being granted by the U.S. Patent and Trademark Office as an ever increasing amount of research is done outside the United States.

We also know that the GATT-TRIPS legislation has made the foreign patentee a more formidable adversary. Up until the GATT-TRIPS legislation was enacted, foreign patentees were basically limited to their filing date relative to someone's invention date or prior activity in the United States. A prior domestic commercial user had a much greater chance before GATT than after. On January 1, 1996, GATT-TRIPS changes that; we would hope that soon thereafter a prior domestic user right would restore a balance.

I hear this morning several questions, among them "Why should we not with our first-to-invent system protect the first-to-invent?" Part of the answer, I think, is GATT-TRIPS. The other part is that we're not proposing a prior user right bill or would find it difficult to support a prior user right bill that required someone to be the first inventor in order to assert the right. It will be very cheap and very inefficient for a domestic enterprise to prove they've made a commercial use. They can do it with their own records. You don't know whether you're the first inventor or not until you know when the invention was made outside the United States that is the adversary in determining your right to continue to practice your commercial process. While it will be very cheap and very efficient for our judicial system to handle prior commercial use in that defense, we fear that as with other inventorship contests where first invention is at issue, it would cost millions of dollars and take many years defeating the very reform that this legislation hopes to enact.

We would urge the committee, therefore, to continue this work among the other good works that it is now undertaking, and, again, appreciate the opportunity for our association to be here and be able to comment on the legislation.

[The prepared statement of Mr. Armitage follows:]

PREPARED STATEMENT OF ROBERT A. ARMITAGE, PRESIDENT, AMERICAN
INTELLECTUAL PROPERTY LAW ASSOCIATION

Mr. Chairman, I appreciate the opportunity to appear before the Subcommittee today to present the position of the American Intellectual Property Law Association (AIPLA) on H.R. 223 5, the "Prior Domestic Commercial Use Act of 1995."

The American Intellectual Property Law Association is a 9,400 member national bar association, whose membership primarily consists of lawyers in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property.

The AIPLA supports the enactment of H.R. 2235. This bill provides a carefully crafted defense right to a charge of patent infringement to a person who has made a good faith, commercial use of the subject matter of the patent, or effective and serious preparation for such use, prior to the earliest effective filing date of that patent. The Association supported similar legislation in the 103rd Congress. The bill which you have introduced for yourself and Mrs. Schroeder in this Congress contains a number of new provisions which even more carefully define the scope of the prior use defense, thereby ensuring that it will be available only in circumstances where the equities favoring a prior user over a later-filing patent owner are compelling.

Before addressing the details of H.R. 2235, I would like to offer a few comments to place the support of the AIPLA into the proper perspective.

Prior user rights are a common feature of patent laws outside the United States. Most foreign patent systems are deliberately structured to balance the protection afforded a prior domestic user with the rights granted under a subsequently filed patent. Under these systems, the commercial activities of a prior user cannot be used to invalidate a patent that is subsequently applied for and issued. Similarly, an established prior use cannot be stopped by an inventor who applies for a patent after the prior use is commenced. Prior user rights produce a "win-win" outcome in the sense of recognizing both the validity of the late-filed patent and continued viability of domestic investments in plant and equipment previously made in good faith.

In most countries, prior user rights have an undeniably "protectionist" function. Our major trading partners benefit from the prior user rights in their domestic patent laws because they assure that domestic manufacturers in those countries, but not foreign manufacturers, can qualify as "prior users." In most countries around the world, domestic inventors hold the minority—sometimes a tiny minority—of patents that are issued. Thus, a common situation in which the prior user right applies is to protect the investment of a domestic manufacturer against a foreign patentee.

Instead of this "win-win" outcome for both the inventor and the prior user, the current U.S. patent law provides the potential for a "lose-lose" situation for the domestic manufacturing company. First, the relative number of U.S. patents that are being granted to foreign-based inventors has steadily increased over the past several decades. Simple mathematics indicates that U.S. patents granted to foreign inventors may pose an increasing challenge to domestic manufacturing enterprises unless the U.S. recognizes prior user rights. The United States patent system, absent the adoption of prior user rights, can be expected to exhibit an increasingly "reverse-protectionist" tilt against domestic manufacturing entities and in favor of foreign patentees.

Second, the GATT TRIPS legislation will shortly strengthen the hand of the foreign inventor in enforcing patents against U.S. manufacturing enterprises. Up until now, a foreign inventor who applied for a patent after the U.S. invention date of a prior domestic manufacturer could not enforce the patent against the domestic manufacturer (unless the invention was "abandoned, suppressed or concealed"). The Uruguay Round Agreements Act greatly complicates even this limited protection for a domestic manufacturer. Beginning on January 1, 1996, a foreign inventor will be able to rely on earlier foreign activities to counter any U.S. invention date proofs. Again, the reverse tilt in the U.S. patent law works against the domestic manufacturer by enhancing the enforceability of foreign patents.

While thirty years ago the arguments for a statutory "prior user" right in the U.S. patent law might have been made in trade-neutral terms, this is no longer the case. As the United States grants more patents to foreign-based inventors and enhances the enforceability of those patents against prior domestic manufacturers, the time has clearly come for Congress to act. We urge that the Congress recalibrate the balance between rights of the prior domestic user and rights afforded under a subsequently sought patent.

For the great majority of inventions, effective protection can only be realized through the patent system. While protection under trade secret law is available for certain manufacturing processes and equipment, most inventions cannot be protected effectively as trade secrets. They can be reverse engineered and copied once they are placed on the market or are otherwise publicly disclosed. Moreover, because trade secret laws generally provide no exclusivity of the type available under patent

law, protection under trade secret laws is seldom chosen where enforceable patent rights are readily and economically available.

There are a number of reasons, however, why it is not feasible or even possible to patent every invention which could be patented. First and foremost is the relationship between enforceability, and cost. The costs of seeking and obtaining patent protection around the world are high. These costs, as well as the costs of enforcing patents country-by-country, have become so high that large U.S. companies must carefully prioritize which inventions they seek to patent. The burden imposed by such costs fall even more heavily on smaller U.S. firms, and especially on independent inventors, who are frequently limited to seeking to patent only their most important inventions.

Where patents on manufacturing technology cannot be obtained and enforced on a global basis, the effect of seeking limited protection in the United States is simply to give valuable U.S. technology to foreign companies for use where corresponding foreign patents were not obtained.

The practical inability of U.S. manufacturers to patent their manufacturing-related inventions globally because of these high costs constitutes no less than a free gift of technology for all of those inventions. Where only a U.S. patent is sought, it would fully disclose to competitors how to make the inventions—including the invention's "best mode"—and would permit competition with the innovator in the United States and in foreign markets.

Even if patents are sought and obtained, enforcement represents a second practical problem. Identifying a competitor's use of such a patented process can be extremely difficult in the United States and utterly impossible in foreign countries. Even in the case of products made abroad and later imported into the United States, it is very difficult to prove that the imported products were made by a particular process that infringes a patent in the United States or the country of origin.

A prior user defense should prove especially useful for the computer software industry. Historically, many inventors have been dissuaded from seeking patents on computer-implemented inventions because of uncertainties over the availability of such patents. For example, the Patent and Trademark Office has only reluctantly accepted the patentability of many types of computer implemented inventions. Instead of seeking patents, many inventors have relied on trade secret protection. Recently, however, the attitude of the Patent and Trademark Office appears to have changed. The Office has issued Proposed Examination Guidelines for Computer-Implemented Inventions that suggests that the door is now open to greater patent protection. A prior user right would assure that a legion of prior commercial users would not now be subject to newly filed and issued patents that are sought pursuant to the Office's new guidelines. Hence, during the expected transition to a greater reliance on patent protection, H.R. 2235 would serve an additional salutary purpose.

For these and other practical reasons, many U. S. companies and especially smaller U.S. companies are forced to forego patenting of many inventions. In the case of manufacturing related technology, these companies seek to protect their technology under trade secret law. This creates the possibility that a second, later inventor may obtain a U.S. patent on technology already being commercially used, but which has not been publicly disclosed. This later-filing inventor could then obtain an injunction and prevent the U.S. manufacturer from further use of the invention, even though the U.S. manufacturer had made the full benefits of the invention available to the American public through its commercial use of the invention.

Foreign inventors and manufacturers, though confronted with the same cost and enforceability problems as their American counterparts, have greater inherent flexibility. They do not face the possibility that a later-filing inventor can obtain a patent and disrupt their home country based manufacturing operations. As noted earlier, this is because virtually all industrialized countries protect their domestic manufacturers with a prior user right (see Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 *AIPLA Quarterly Journal* No. 3(1993)

Thus, while a Japanese or German company with a U. S. patent may preclude the use of an industrial process by a U. S. company which had been utilizing that process as a trade secret for years before the patent application for the process was even filed, the reverse is not the case. American inventors holding patents in any of our major trading partners could not preclude use of the patented invention by a company which had begun its use of the invention before the American inventor filed a patent application. When 45% of all U.S. patents are being granted to foreign firms, this unbalanced playing field is, of itself, a strong economic argument in support of H.R. 2235.

The laws of the United States should give weight to legitimate forms of protection for American jobs and businesses.

The AIPLA support of H.R. 2235 is predicated on the fact that it does not compromise effective protection for patent owners. The limitations of H.R. 2235 ensure that U.S. patentees will continue to enjoy their full, exclusive patent rights except in certain rare situations where an earlier-started, domestic, commercial enterprise will be allowed to continue under restricted circumstances. We have every confidence that the proposed prior use defense cannot be easily abused or misused. This confidence stems from actual experience in other countries having prior user right provisions which are more readily available than those which would be established under H.R. 2235 (see Lise Osterborg, *Towards a Harmonized Prior User Right Within a Common Market System*, 12 Int'l. Review Indus. Prop. and Copyright 447 (1981).)

Unlike its predecessor in the 103rd Congress which provided a prior use defense to a person who commercially used, or made effective and serious preparation to use, a patented invention before its effective filing date, H.R. 2235 requires that the commercial use or a reduction to practice of the invention must occur more than one year before the effective filing date. The term "commercially used" means that a person asserting the prior user defense must have used the invention in the United States in the design, testing or production of a product or service which is sold or otherwise transferred in commerce. The invention used need not be accessible or otherwise known publicly. Thus an industrial process or tool which is used as a trade secret to produce a product in commerce would be deemed to have been commercially used.

H.R. 2235 also tightens the requirements with respect to what constitutes "effective and serious preparation." Under H.R. 2235, "effective and serious preparation" will only give rise to a prior use defense with respect to inventions which cannot be commercialized without a significant investment of time, money, and effort. This is further qualified by the requirements that a person asserting a prior use defense must have:

reduced the invention to practice in the United States more than one year prior to the effective filing date of the patent;

completed a significant portion of the total investment necessary to commercially use the invention and have made a commercial transaction in the United States in the preparation to use the invention prior to the effective filing date of the patent; and

diligently completed the activities and investments necessary to commercially use the invention and promptly began its commercial use after the effective filing date of the patent.

Should the person asserting a prior use defense have abandoned commercial use of the invention, he or she can only rely on activities occurring after the effort to commercially use the invention is resumed.

There are a number of other limitations on the establishment of a prior use defense under H.R. 2235. First, the burden of proving that a person is entitled to the defense is always on the person asserting the defense. Should an infringer claiming the defense fail to demonstrate a reasonable basis for such assertion, the court shall award attorney's fees to the patentee.

Moreover, the prior use defense established by H.R. 2235 is not a general license under all of the claims of the patent in issue. It is a defense only to the claim or claims in the patent which the person asserting the defense had commercially used or made effective and serious preparations to use. An improvement by the prior user reduced to practice less than one year before the effective filing date of the patent that would infringe an additional specifically claimed subject matter would not benefit from a prior use defense. Only improvements that do not infringe additional claims and variations in the quantity or volume of the qualifying prior use would be permitted.

The prior use defense could not be licensed, assigned or transferred to a third party except in connection with the good faith assignment or transfer of the entire portion of the business to which the defense relates.

Finally, a person may not assert a prior user defense based on information that was derived from the patentee or those in privity with the patentee. Thus, if a patentee demonstrates that the person asserting a prior use defense had access to information from the patentee or reasonably could have obtained such information that likely accounted for the original acquisition of the invention by that person, then there would be a rebuttable presumption that the person derived the information and is not entitled to the defense. The person asserting the defense would have to establish that the invention was independently obtained from a source other than the patentee to rebut such a presumption.

In light of the need for a prior use defense to place American businesses on an equal footing with their foreign competitors, the AIPLA supports enactment of H.R.

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2235 with its carefully crafted limitations and safeguards against abuse. Although the prior use defense of H.R. 2235 will seldom be available, we believe there is a need to establish it promptly.

Mr. MOORHEAD. Thank you.

Mr. Griswold, opponents of prior user rights legislation contend that permitting prior nondisclosed use to impact the exclusivity of a patent will encourage inventors to shift to protecting inventions with trade secret laws instead of patent laws will cripple the patent system. What is your answer to this argument?

Mr. GRISWOLD. My answer is that there will be some shift because they will not be filing patent applications on process nuances and some processes that they cannot police. As I mentioned earlier, that will be a very positive thing because you can't police some patents. You don't know whether somebody is infringing your process patent from examining the product; in that case you don't really get the quid pro quo of the patent grant—the trade of your disclosure for the exclusivity.

So, I think there will be some shift; there will be less filing on those kinds of inventions, and I think that will be positive. I think it's good for business in the United States, that they don't spend money on that kind of coverage and don't turn technology over to people outside the United States, or perhaps inside the United States, that they can use to manufacture products that compete with our products both here and abroad.

Mr. MOORHEAD. Mr. Armitage, opponents of H.R. 2235 contend that disclosure is important in the development of technology. Is there any reason to believe that technological advancements will suffer as a result of this bill or that secret use of technology is less beneficial than disclosed?

Mr. ARMITAGE. I think the answer to that question goes to the difference between technology that's most appropriate to protect by patents and technology that must be protected by trade secrets in order to give full value to the creators of that technology. A prior user right bill doesn't apply to any thing that represents any of the technology in this room or any of the technology that Mr. Budinger was talking about. Those things are either protected by patents or they can be reverse engineered.

However, I worked for 20 years at the Upjohn Co. We filed hundreds, if not thousands, of patent applications over the course of that time, but when it came to our process technology, which we hoped would give us some competitive advantages, if we had tried to patent that, we would have found it impossible to police those patents. In order to seek those process patents and get them validly issued, we would need to disclose so much detail that we would basically be providing a roadmap for people, in for some period of time Italy at other periods of time Spain, to simply help themselves to America's pharmaceutical products that for decades have been responsible for huge trade surpluses.

So, it's an apple and an orange comparison. And if we are to take advantage of the millions, if not billions, of dollars that go into process development in the United States, we need to keep in balance the patent system and the trade secret system.

Mr. MOORHEAD. Section 2(c) establishes a 1-year limitation in order to effectively integrate the current patent application procedures. Can you describe this integration? Mr. Budinger.

Mr. BUDINGER. Yes, basically what that section says is that if the prior user can prove commercial use 1 year prior to the patent priority date, and that's usually a fairly easy thing to do, if he can meet that test and all of the other tests, then he may use the prior use defense. If he cannot, if he was not in commercial use 1 year prior to the priority date, then he must be able to show that the invention had at least been reduced to practice by himself or someone with whom he is in privity. The basic purpose for that provision is to protect the current one year grace period in U.S. law.

Mr. MOORHEAD. I understand that in a previous life you worked closely with the American Bar Association section on intellectual property law. And with the university community, you previously opposed the bill due to retroactivity of the licensing issues in the last Congress bill. Could you comment on the communications between industry and those parties regarding the bill?

Mr. BUDINGER. Yes. The ABA was particularly concerned about the issue you just raised, 2(c)(6). I think the easiest way to explain is that under the current law, before prior user rights, if Bob here starts to invent something and works on it and other people become aware of it, there is no incentive for them to rush into production because they know he has a year before he has to apply for his patent. With prior use in place, there was a concern that if someone became aware of Bob's invention, they would rush it into production so they could establish commercial use, and thereby a prior use defense, before the 1-year grace period was up for Bob. If we didn't cover that it would effectively defeat the 1-year grace period that's currently in the law. The American Bar Association was very strongly concerned about this issue. We worked with them to add that provision to the bill.

The university folks were concerned that they're not in the business of manufacturing. They're in the business of inventing things and then licensing the patents. And they were concerned that a prior use would diminish the value of the patent, that it would, in effect, be a royalty-free license on the patent, so that subsequent purchasers of the patent might find it less valuable.

Why would I want to buy a patent if as soon as I try to enforce it an infringer can say, "Oh, I have a prior use; I can keep infringing"? What we did to respond to their concerns was to place restrictions in the bill to make sure that the prior use is truly commercial, that it truly happens before the patent is applied for and is at least 1-year-old as required by 2(c)(6). Once that was done, they withdrew their objection.

Mr. MOORHEAD. Would prior user rights be of more benefit to small manufacturers and independent inventors than it would be to the large corporations?

Mr. BUDINGER. Is that for me? Not being a large corporation, I won't presume to speak for them. But, I've heard a lot about defensive patenting, and for a small company defensive patenting is absolutely not a viable option. For us to try to patent a process—and this prior use bill is primarily concerned with processes or software, the things that occur behind factory doors—for us to try to

patent those things defensively is basically to give away what we do to the rest of the world and all of our foreign competitors.

The reason is that we would have to patent it all over the world. And the cost of doing that today, to patent one invention all over the world and pay the fees to those foreign patent offices over the life of the patent, which is typically 20 years, is \$500,000 per invention. So obviously that is not a viable option for a small business. Even if you just patent in a few of the key countries, you're easily up over \$100,000 per patent.

Mr. MOORHEAD. It becomes almost prohibitive for most small businesses.

Mr. BUDINGER. Yes.

Mr. MOORHEAD. I wish we'd had more members of our subcommittee here, but we were tied up for 9 solid legislative days in this committee with an immigration bill. And, as a result, all of the subcommittees have been holding hearings or markups. Many are ongoing this morning, and for that reason, we couldn't get people at any one of those meetings in any large numbers. I wish others could have heard some of the actual stories of how this works that you've brought up this morning, and I think it would explain the need for this legislation. I hope we can get it across to them, and I know they'll have the record to see, but I feel that this is a necessary bill. And I think your testimony has been very valuable.

And we're ready for another vote almost immediately on the floor. I wanted to get in as much as I could, so that you didn't have another long delay.

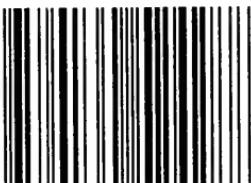
I appreciate your coming. All of the witnesses today have been good and I want to thank each one of you. Thank you.

The meeting is adjourned.

[Whereupon, at 11:46 a.m., the subcommittee adjourned.]

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